January 1960

THE CANADIAN CHARTERED ACCOUNTANT

ACCOUNTING FOR MANAGEMENT

Four 1959 Annual Conference Papers

Public Bookkeeping Services

Payroll Writing Systems

Mortgages — A Growing Business

The Monetary Situation Analyzed

Facing Facts in Financial Statements

ACCOUNTING RESEARCH: Auditor's Responsibility for Inventories

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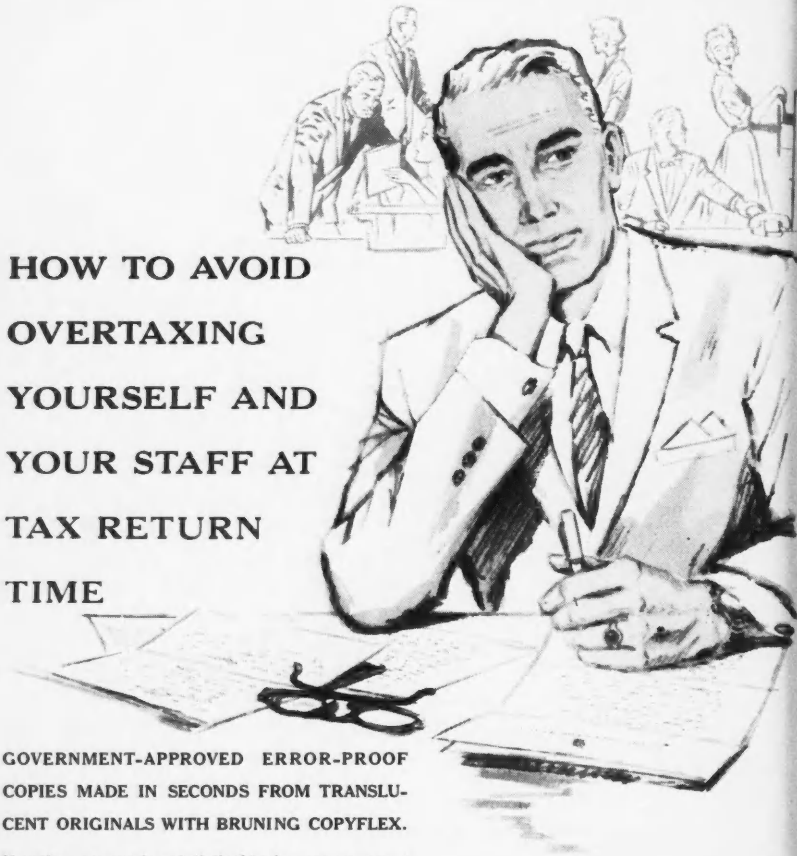

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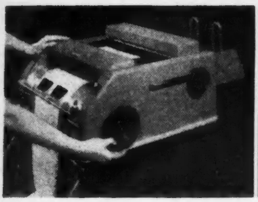

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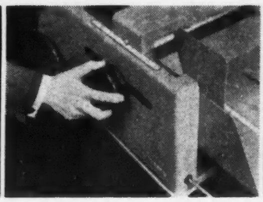

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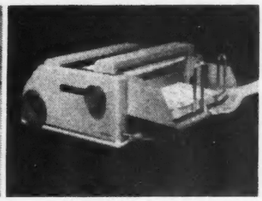

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THE CANADIAN

CHARTERED ACCOUNTANT

VOLUME 76, No. 1 JANUARY 1960

EDITORIAL

ARTICLES

DEPARTMENT

MONTHLY FEATURES

The Canadian Chartered Accountant, January 1960. Published monthly by the Canadian Institute of Chartered Accountants. Chairman, Editorial Board, H. S. Moffet, F.C.A.; Editor, Renny Englebert; Asst. Editor, Jean Vale. Advertising Representative, E. L. Vetter. Editorial and Business office: 69 Bloor street east, Toronto 5. Subscription rates: $5 a year; 60 cents a copy. Printed by General Printers Limited and mailed at Oshawa, Ontario. Authorized as second class mail by the Post Office Department, Ottawa. Opinions expressed are not necessarily endorsed by the Canadian Institute.

IN THIS ISSUE

J. R. FERGUSON (page 22)

Shifting influences in the economy call for continual study of economic, corporate and political trends. To remain alert to these trends, we asked John R. Ferguson, economist and director of research, Nesbitt, Thomson & Company, Montreal, to evaluate the policies of the monetary authorities, and in "The Monetary Situation Analyzed" the author documents his findings. He offers reasons why the improvement that has been taking place in the money supply should make it easier for Canadian business corporations to raise funds in the capital market. He points out that while recent monetary policies have been effective in restraining inflationary pressures, some of the credit should go to persons in a position to influence public opinion who, by their positive and constructive statements, helped to quell inflation fears and restore investor confidence.

Mr. Ferguson joined Nesbitt, Thomson & Company Limited in 1951 as manager of the statistical department and was transferred to underwriting duties in corporation financing in 1956 before being appointed to his present position. He is a graduate of Sir George Williams College, Montreal, and has been a lecturer there since 1950 in corporation finance, business organization and investment analysis.

HERBERT WOODARD (page 30)

Canada has built more than a million houses since the war of which about half have been financed under National Housing Act loans. According to Herbert Woodard in "Mortgages – A Growing Business", Canadian mortgage loans outstanding today aggregate about $10 billion, and without this regular flow of mortgage money, housing and industrial growth would be stunted and sporadic. And yet, there is often confusion as to the fundamentals of the mortgage business. What, then, are the basic essentials of most mortgage loan transactions? Mr. Woodard, who has been associated with the mortgage business for over 30 years in both Canada and the United States, gives a comprehensive answer to this question.

The author is financial adviser to Central Mortgage and Housing Corporation, Ottawa and has been associated with the Crown company since its establishment in 1946. For many years he was with the Sun Life Assurance Company of Canada, and with the advent of Canada's first major Housing Act in 1935 he was assigned to the company's mortgage department and was appointed its supervisor in 1944. He is the author of a recently published book "Canadian Mortgages" (Wm. Collins Sons & Company Canada Ltd.) which will be reviewed in a forthcoming issue of this journal.

DONALD GORDON, C.M.G. (page 37)

The subject of accounting and changing prices continues to be a controversial one although the issue may not be as alive as it was 6 or 7 years ago when inflation was at its height. In the address "Facing Facts in Financial Statements" which Donald Gordon, president of Canadian National Railways, presented in November to the Institute of Chartered Accountants of Quebec, he expressed concern over the fact that the accounting profession has not come up with some forthright recommendations on what

(Continued on page 6)

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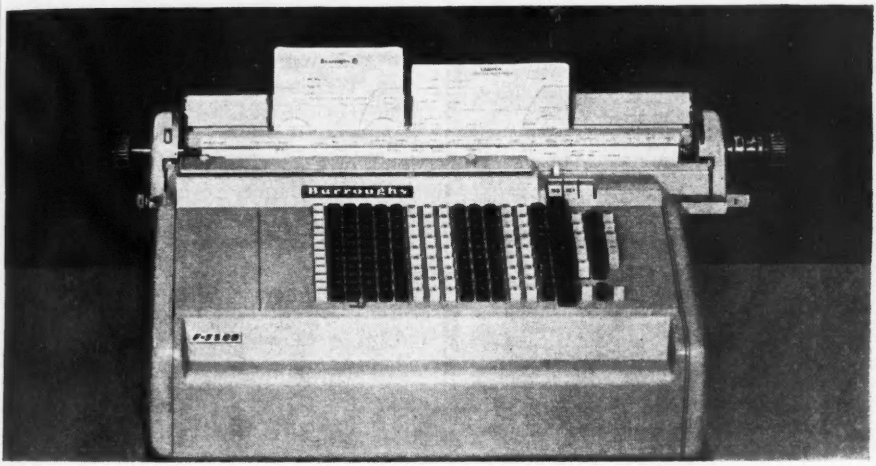

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(Continued from page 4)

he called "the most important accounting question of our generation". He was even more concerned that the profession had failed to show leadership in eliciting opinion that will lead to decisions on the changing of money values as applied to financial statements and challenged accountants to get into the arena and "let people know the effects of inflation and express views on how best to make the record speak to provide realistic information to owners, managers, labour and investors".

Mr. Gordon has an outstanding record of public service dating back to the war years when he was chairman, Wartime Prices & Trade Board from 1941 to 1947. Prior to this appointment, he was secretary to the Bank of Canada and in 1938 was appointed its deputy-governor. On leaving the Wartime Prices & Trade Board, he became executive director, International Bank for Reconstruction and Development and in 1950 was appointed chairman of the board of directors and president, Canadian National Railways.

E. C. PAPAS, C.A. (page 43)

Details of payroll recording procedures vary among businesses according to the size of the company and the information required. In his article "Payroll Writing Systems", Ernest C. Papas outlines briefly the seven most widely used types of payroll systems and simplifies them for easier understanding and application. His discussion is limited to the mechanics of writing a payroll and an appraisal of the systems used. The author stresses, however, that in preparing for a payroll system, the first step is to determine the requirements needed

by government, union, management and employee.

Mr. Papas, who is associated with the administrative services division of Riddell, Stead, Graham & Hutchison in Montreal, became a chartered accountant in 1957 and is a member of the Institute of Chartered Accountants of Quebec.

W. W. POLLOCK, C.A. (page 50)

In "Public Bookkeeping Services", William W. Pollock discusses bookkeeping services in small accounting offices and the practitioner's approach to the handling of them. Accountants frequently do this type of work in their early years of practice, and to many it is a permanent and useful part of the service they render. In the opinion of the author, the audit department can be the bookkeeping department's "best friend", and the bookkeeping department can, in turn, gain audit clients as small businesses grow or incorporate. However, in listing the many services of a typical bookkeeping staff, it would seem that the term "financial advisory services" might be a better way to describe them.

Mr. Pollock is a senior partner in Pollock, Lyttle & Co., St. Catharines, Ontario and became a chartered accountant in 1936. He established his own practice in 1940. He is a member of the Institute of Chartered Accountants of Ontario and a director of the Hamilton and District Chartered Accountants Association.

EDITORIAL (page 19)

Five of the ten provincial Institutes of Chartered Accountants have C.A. clubs, and we asked a past president

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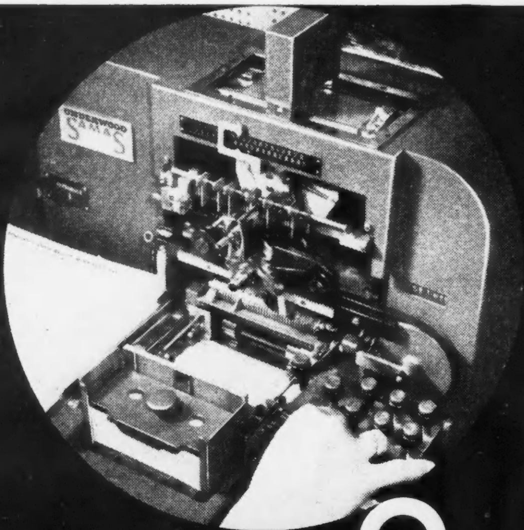
(Continued from page 7)

of the club in the nation's capital to contribute an editorial on "The Role of the C.A. Club". The sum total of William Hogben's remarks is that, through a chartered accountants' club, members of the profession can contribute their individual abilities to the common good in all its various aspects.

Mr. Hogben is financial adviser to the Board of Transport Commissioners for Canada. During World War II he served with the Foreign Exchange Control Board and later transferred to the staff of the Comptroller of the Treasury. He is a member of the Institutes of Chartered Accountants of Scotland and Ontario and in 1959 was elected a Fellow of the Ontario Institute.



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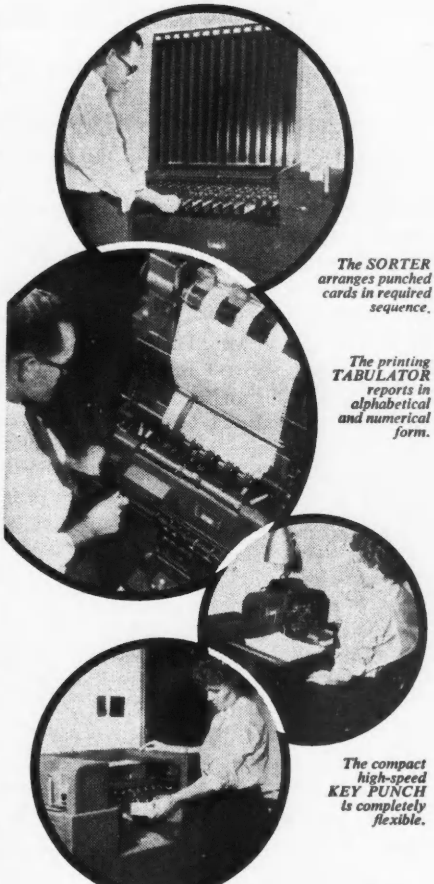

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NOTES AND COMMENTS

Appointment of Executive Secretary

The President and Executive of the Canadian Institute of Chartered Accountants announce the appointment of R. Douglas Thomas, B.Com., M.B.A., C.A. to the position of executive secretary and director of research, effective January 1, 1960.

R. D. THOMAS

Mr. Thomas received his B.Com. from the University of Toronto and his M.B.A. from the University of British Columbia. He articled with Clarkson, Gordon & Company, Toronto and became a member of the Institute of Chartered Accountants of Ontario in 1950.

From 1951 to 1956 he was assistant professor, Faculty of Commerce and Business Administration, University of British Columbia. He left to take charge of recruitment and staff training for Riddell, Stead, Graham and Hutchison and subsequently became a partner in that firm. He has been a member of his company's committee on accounting and auditing practices, the Ontario Institute's Board of Instruction and a sub-committee of the Board dealing with long-range educational planning.

E. Michael Howarth has resigned as executive secretary to become executive vice-president of the Federated Council of Sales Finance Companies.

Committee on Continuing Education

A Canadian Institute Committee on Continuing Education has been formed and has as its main purpose the task of determining desirable areas for post-graduate studies and recommending a program of action to the Executive and Council. C. C. Mackechnie, Toronto, is chairman of the committee. The other members are J. G. Arthur, Toronto, R. S. Aiken, Montreal, G. K. Carr, Toronto, A. C. Johnston, Toronto, D. B. J. Morin, Toronto, E. W. Pope, Winnipeg, J. A. Ross, Toronto, and G. H. Ward, Toronto.

The committee also has the services of Professor C. L. Mitchell, University of British Columbia, Professor S. G. Hennessey, University of Toronto, Professor W. G. Leonard, Queen's University and Mr. S. A. Martin, University of Western Ontario.

TSE and Quarterly Reports

In November last, the Toronto Stock Exchange wrote its listed companies who are not at the present time publishing quarterly statements of earnings and asked them to join the large number of Canadian corporations who are presently giving publicity to their affairs on a regular quarterly basis. According to *The Financial Post,* of 419 industrial companies and 70 producing mines and oils whose stocks are listed on the TSE, 126 now publish interim statements. The TSE campaign is aimed at the remaining 363 firms. Asked to comment on the matter, C.I.C.A. president

(Continued on page 14)

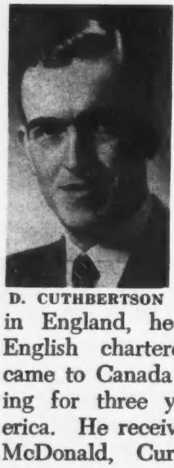
(Continued from page 12)
James G. Duncan, F.C.A. said that the move to encourage companies to publish regular quarterly earnings statements is a step forward and while the cost of producing quarterly reports may worry some firms, most forward-looking companies have the figures available for internal purposes, and a press release can take care of the reporting problem at small cost.

External Trade

Commodity imports in the third quarter of 1959 reached a record value for the period of $1,410,800,000 while total exports with a value of $1,304,900,000 were close to the record set in 1957. For the nine months imports were up nearly 11% over 1958 with a value of $4,225,000,000, below the peak total of 1957, but total exports with a gain of close to 3% reached a record value of $3,721,600,000.

The Institute's Examinations

A total of 2168 candidates sat for the 1959 uniform examinations of the Canadian Institute of Chartered Accountants held last October. There were 1109 candidates for the final, of whom 604 passed. The Governor-General's gold medal, the Edmond Gunn prize and the Founders' prize were won by David G. Cuthbertson of Montreal. Born and educated in England, he is the son of an English chartered accountant and came to Canada in 1954 after working for three years in South America. He received his training with McDonald, Currie & Co., Montreal. The C.I.C.A. silver medal and the Edmond Gunn prize for the second highest candidate were won by Guy Poupart of Montreal. He graduated from Laval University with a master's degree in commerce in 1959 and is presently employed by Clarkson, Gordon & Company, Montreal. The Founders' prize for the third highest candidate was awarded to Kenneth L. Godwin of Winnipeg who graduated from Gordon Bell High School and articles with Price Waterhouse & Co., Winnipeg. Fourth place honours and the C.I.C.A. prize were shared between Rodney J. Anderson and Alan E. Woods, both of Toronto. Mr. Anderson was educated at Trinity College School, Port Hope, and graduated from the University of Toronto with a B.A. in chemistry, first class honours. He trained with Clarkson, Gordon & Company, Toronto. Mr. Woods was educated at Etobicoke Collegiate and articled with Glendinning, Campbell, Jarrett & Dever, Toronto.


D. CUTHBERTSON


G. POUPART

In the intermediate examinations, there were 1059 candidates of whom 526 passed. Honours were awarded to Bertrand Wolfman of Winnipeg, employed with Halliday, Korn & Co., who received the C.I.C.A. silver medal, the Founders' prize and the C.I.C.A. prize. The Founders' prize for the second highest candidate was won by George L. Stephenson of Toronto, who is with Glendinning, Campbell, Jarrett & Dever, Toronto.

Admission of the successful final candidates will result in Canadian Institute membership exceeding the 9,100 mark.

Financial Post Awards

The winners in *The Financial Post's* 1959 annual reports contest were announced last month. The following companies were awarded top places:

Manufacturing – Metals and Metal Products: Aluminium Ltd., Ford Motor Co. of Canada, Dominion Electrohome Industries.

Primary Manufacturing – All Other Products: Abitibi Power & Paper Co., Canadian Oil Cos., St. Lawrence Corp.

Secondary Manufacturing – All Other Products: Moore Corp., Chateau-Gai Wines Ltd., Du Pont of Canada Ltd.

Merchandising and Distribution: Southam Co., Dominion Stores Ltd., G. Tamblyn Ltd.

Mining and Oil Production: Falconbridge Nickel Mines Ltd., Home Oil Co., International Nickel Co. of Canada.

Public Utilities: B.C. Power Corp., Shawinigan Water & Power Co., Mexican Light & Power Co.

Finance: Investors Mutual of Canada Ltd., Industrial Acceptance Corp., Canadian Investment Fund Ltd.

The English Institute and the Future

The Council of the Institute of Chartered Accountants in England and Wales has set up a committee with the following terms of reference: "To review the whole question of the Institute's activities in the technical field and to report on recommendations on (a) objectives and (b) how those objectives can be achieved, and (c) the associated problems of staff and office accommodation. The decision of the Institute drew a comment from *The Accountant,* a weekly magazine for chartered accountants and accountants throughout the world (Nov. 14, 1959): "It may be assumed that while due consideration will be given to auditing procedures and other well established branches of professional endeavour, special regard will be paid to such modern developments as management accounting, as the concern both of those members who are engaged full time in industry and commerce and of those practitioners who render services to clients as consultants. The possibilities of electronic data processing and its impact on the existing techniques of accounting and, consequently, of auditing will also doubtless be fully explored as will, too, the Institute's present methods of making recommendations on accounting principles, issuing publications on specialized aspects of professional knowledge and submitting evidence on a wide range of matters to government departments, Cabinet Ministers and specially constituted bodies, both public and private."

CORRESPONDENCE

Montreal, Nov. 17, 1959

BULLETIN No. 16

Sir: In the September issue of *The Canadian Chartered Accountant* there appears an article written by Mr. W. Barry Coutts, C.A., on the work of the Committee on Accounting and Auditing Research, in which he deals at length with Bulletin No. 16. In this connection, the writer states that the bulletin makes it mandatory in normal cases for the auditor to be present at the taking of the inventory.

This is a new concept of the effect on chartered accountants of the deliberations and conclusions of the committee as set forth in the bulletins issued from time to time by it. It has always been my impression that bulletins were to be considered as informative or advisory in nature and to act as a means of communicating to chartered accountants the findings of the committee and not as laying down any hard and fast rules governing auditing procedures. I believe that this view is supported by Mr. Coutts in the following quotation from the article referred to in this letter:

"It has always been the view of the committee that matters of auditing procedures were not normally suitable topics for discussion in research bulletins since, in the committee's opinion, the practice of auditing is, in effect, an art and each individual engagement calls for the exercise of this art."

I feel that a very dangerous situation has been created through the use of the word "mandatory" in this article because in the future it may be quoted as a standard practice and possibly be used in instances where the competency of the chartered accountant is involved. Consequently, consideration should be given to the measures necessary to counteract the possibility of such undesirable results arising therefrom.

J. M. DEVER, C.A.

Regina, Nov. 20, 1959

LONG-TERM ASSETS

Sir: For many years, assets whose life exceeds that of current assets, that is, in excess of one year, have been referred to in balance sheets as "fixed assets".

Current readings have in some cases used the term "long-term assets". We suggest that the Committee on Accounting and Auditing Research study this question with a view to recommending that the term "fixed assets" should be replaced by the term "long-term assets" in balance sheet presentation.

In support of the above statement we submit the following arguments:

1. In our opinion, there is only one asset whose life is fixed, that is, land. All other assets, which previously have been referred to as "fixed" are not, in fact, "fixed" but exist for a "long term", such term exceeding that of current assets. In view of the fact that in most cases, land is the minority asset of the so called "fixed" asset group, we believe that the caption should describe the majority of the assets of that group.

2. It is generally accepted among readers of balance sheets that "current assets" are to meet "current liabilities", and "fixed" assets are to meet "long-term liabilities" and shareholders' investment. In view of the recent trend toward referring to liabilities, such as mortgages, agreements, etc., as "long-term liabilities", we believe that their asset counterpart should be described as "long-term assets".

If the committee has already studied this question, we feel that their views would be of interest to your readers.

G. D. HATTON, B.COMM.
E. M. WARREN, B.COMM.
D. W. SCRIMBIT

Editorial

THE ROLE OF THE C.A. CLUB

According to information available there are now 17 C.A. clubs in Canada, of which seven are in Ontario and four in British Columbia. The provinces of Quebec, Saskatchewan and Alberta each have two clubs, and the remaining five provinces apparently have none. It is perhaps not without significance that neither Montreal nor Toronto has a C.A. club, and that the same situation exists in five other cities in which provincial Institute offices are located. This suggests that the profession in these seven major cities may consider that the needs of their members are already adequately taken care of by the regular Institute activities. Perhaps the outstanding example of the opposite point of view is to be found in Vancouver. The Vancouver C.A. club is one of the youngest (having been founded only last year), but it became almost immediately one of the largest and most active in Canada. Vancouver has a well organized C.A. wives club. In the majority of cases, C.A. clubs appear to have been formed for social reasons, but a perusal of their activities as reported in *The Canadian Chartered Accountant* shows that they now fulfil many other functions. It may be appropriate, therefore, to review these activities and to assess the part that the clubs play in the life of the profession.

There is no need to stress the advantages of members of a profession meeting together in a congenial atmosphere at fairly frequent intervals. It is true that in most communities the more senior members already tend to meet either socially or in the course of business. Many others, however, particularly the younger members who go into practice for themselves, may be too busy with their clients' affairs to see much of their fellow members. C.A. clubs have done a great deal to provide more frequent opportunities for the discussion of mutual problems.

Good public relations require that the profession should be associated with, and be prepared to sponsor, worthwhile projects of general benefit to the community. Such projects, if they are well

executed, reflect credit on all concerned and are excellent advertising for the profession. The C.A. club provides a ready made organization for carrying out such projects. Speakers for service clubs are always in demand and panel discussions on income tax and other matters, either at public meetings or through the medium of radio and television, are often useful. Public libraries have gratefully accepted offers of assistance to bring the selection of accounting reference books on their shelves up to date.

Many firms find the recruitment of students to be a difficult problem. The existence of a single body able to speak authoritatively for all C.A. offices in an area is far more effective with universities, colleges and high schools than a number of individual contacts, and no doubt many C.A. clubs will wish to obtain copies of the new C.I.C.A. recruitment film for use in this way. The formation of a students' association is encouraged by the existence of a C.A. club, as advice, and sometimes even financial assistance, is often needed. A C.A. club is the ideal medium for helping such an organization to get on its feet and to develop a successful program of its own, and the club also provides a ready means of introducing new graduates to the other members of their profession. More than one club takes cognizance, in the form of a tangible reward, of exceptional prowess in examinations.

Opinion seems to be divided on the best methods of bringing members together. Some programs are largely social, including dances, golf, and a variety of other events; others are mainly of a business nature, with panels, discussion groups and talks on technical subjects. This difference in approach can be observed in the types of subject dealt with by speakers at regular luncheon or dinner meetings; some of these are strictly on business matters while others are on subjects of interest away from the everyday pursuits of the members. To maintain the interest of both practising and non-practising members, a varied program is usually necessary.

It is in the nature of any profession that there must be strong cohesion between its members, and it is impossible for this to develop and be maintained unless the members of the profession in each area know one another, trust one another and are prepared to cooperate. There can be no doubt that C.A. clubs perform a most valuable function in this respect.

Walter J. Macdonald

On November 24, 1959, Walter J. Macdonald, F.C.A. of Winnipeg, died of a heart attack in Montreal at the age of 65. To those who trained and worked under him and to the great number of chartered accountants across the country who recognized his many admirable qualities, his sudden passing leaves a gap that can never be filled. By reason of his record of public service and the respect with which he was regarded in business and service organizations, he stands out as an example to his profession of what a chartered accountant has to offer his community.

Walter Macdonald was born in Glasgow and, as a young man of 19, moved with his family to Winnipeg in 1913, qualifying as a Canadian chartered accountant in 1915. In that year he enlisted as a private in the 44th Battalion of the Canadian Expeditionary Force and, shortly after, went overseas with his unit. He rose to the rank of Captain and won the Military Medal and Military Cross and Bar.

In 1920 he established the firm of Millar, Macdonald & Company in Winnipeg which in 1954 was to become associated with Deloitte, Plender, Haskins & Sells. He was the senior partner of the firm at the time of his death. At an early period in his career he evinced a keen interest in the affairs of his profession and in 1931 and 1932 was elected president of the Institute of Chartered Accountants of Manitoba. During the next 25 years he served on numerous Institute committees and was on the Executive of the Canadian Institute for four years before becoming its president in 1953. During his term of office the concept of the Institute annual meeting was changed to give wider recognition to the problems of the accountant in public practice and particularly the accountant in industry.

Walter Macdonald gave a great deal of time to serving the youth of his community and from 1949 to 1954 he was president of the Winnipeg Y.M.C.A. Church work had long been one of his special interests. He was a member of the Board of Regents of United College and general chairman of the United College Appeal Fund. The list of his offices, committee appointments and the commissions on which he served are too numerous to list.

He will be remembered as a man of vision and foresight with a great capacity for hard work who also retained the personal touch and an earnest solicitude for the interests of his clients. His warmth and fierce loyalty, characteristic of the Highland Scot, gained him many friends. He was devoted to his profession and by his endeavours he left an imprint on Canadian accounting that will never be erased.

The Monetary Situation Analyzed

JOHN R. FERGUSON

FOR MORE THAN A YEAR, since October 1, 1958, the supply of money in Canada, as measured by the total of chartered bank deposits and currency outside the banks, has been maintained by the monetary authorities at a fairly constant level. During this time it has fluctuated within a relatively narrow range, but was actually lower at $13,180 millions on November 4, 1959 than it had been on October 1, 1958 when it stood at $13,280 millions.

During this period of almost constant money supply, the economy completed its recovery from the 1957-1958 recession and entered into a period of renewed economic growth. It was inevitable under these circumstances that an increased demand for funds to finance such economic activity should result in a condition that has been given the popular label of "tight money".

Causes of Money Tightening

The reason given by the monetary authorities for preventing an increase in the supply of money was that there had been a substantial increase in the money supply in the previous 12 months. Between October 1, 1957 and October 1, 1958 it had increased by 14%, and during this time there had been little more than a 2% increase in the gross national production of goods and services. In the Bank of Canada's annual report for 1958, its Governor, Mr. Coyne, stated that the substantial increase in the money supply that had taken place was sufficient to make possible the financing not only of full recovery from the recession but of a considerable degree of renewed economic growth thereafter.

The increase in the money supply prior to October 1, 1958 was the result of Government of Canada financing operations. A heavy spending program and a decline in revenues during the recession had resulted in a large cash deficit which it was necessary to finance through the sale of bonds. The investing public was concerned, however, about rising prices and especially about the inflationary effects of government spending, and there was a general anticipation of lower bond prices and higher interest rates. Thus, the government's bonds did not meet with a ready acceptance by the general public and had to be taken up in very large measure by the banking system. The Bank of Canada was forced under these circumstances to permit an increase in the total chartered banks' deposits (which meant an increase in the money supply) in order that the chartered banks could absorb the Government of Canada bonds.

Such a substantial increase in the money supply without a corresponding increase in the production of goods and services must carry with it a considerable amount of inflationary potential. In order to offset this,

the monetary authorities embarked upon a policy of maintaining the money supply at a constant level until such time as there was a catching up in the production of goods and services.

The effect of the restrictive monetary policies under conditions of growing economic activity was to result in a relatively greater demand for funds than there were funds available, and this situation was reflected in a rapid increase in the cost of money. Interest rates rose rapidly, especially for shorter-term funds. The average rate on the government's 91-day treasury bills rose from 2.37% on October 1, 1958 to its high of 6.16% on August 13, 1959. The average of the closing rates on the chartered banks' day-to-day loan money rose from .30% for the week ending October 1, 1958 to 5.98% for the week ending August 19, 1959. While the cost of longer-term funds did not increase in the same proportion, they did, however, result in a considerable increase in the cost of financing for corporations and for government borrowers.

Public Cautious

The situation with respect to the demand for and the supply of funds was aggravated by a general lack of investor confidence in the market for fixed income securities. Many individuals were holding substantial amounts of money in the form of savings deposits with the chartered banks and with other savings institutions. Those who did venture into the securities markets showed a preference either for equity securities, or for relatively liquid short-term bonds with low coupons that would provide a tax advantage.

Personal savings deposits with the chartered banks during August, 1959 exceeded $7.2 billions, an increase of approximately $1 billion from the same month of two years ago. In addition to the savings deposits of the chartered banks there was probably an additional $1.8 billion held in the savings deposits of other financial institutions including the Post Office Savings Bank, the provincial savings banks of Ontario, Alberta and Newfoundland, the Quebec savings banks, the savings departments of trust and loan companies and several thousand credit unions. Thus, total savings deposits probably amounted to about $9 billions and these funds were earning their holders an average return ranging somewhere between 2¾% and 3%.

Our own estimate is that with the chartered banks alone, there were close to 1,500,000 separate accounts with deposits ranging from $1,000 and up, for a total value of more than $5 billion. Within this total, it is estimated that there were almost 70,000 accounts with amounts ranging from $10,000 and up, for a total value of $1.5 billion.

During the months following October 1, 1958 there was further evidence of the general public's desire for liquidity in its net market purchases of over $2 billion of Government of Canada direct and guaranteed securities, most of which were in shorter-term maturities.

With the general public withholding its funds from the market for longer-term fixed income securities, and thus preventing the use of these funds for the capital purposes of business corporations and the financial needs of provincial and municipal governments, borrowers were forced to concentrate on the services of pro-

fessional lenders, and especially on the lending facilities of the chartered banks. Although the chartered banks did not cease to expand their loans during most of this period, they could not satisfy the demand for funds and were forced to restrict their lending activities and ration their loans. This naturally concentrated attention on the chartered banks and they tended to receive a considerable amount of criticism for the tight money conditions that had developed.

Misallocation of Loanable Funds

There thus resulted a monetary situation involving a misallocation of loanable funds. This of course posed a serious problem, for loanable funds are of prime importance in the financing of Canadian economic activity. Dependent on access to loanable funds for financing are the three levels of government, the housing construction industry, and a major proportion of the external financing requirements of Canadian business corporations.

The excessive amount of liquidity in the economy was an important evidence of the misallocation of loanable funds. This situation alone can carry with it serious potential inflationary pressures, for there is always the possibility that the holders of liquid assets will convert them into money and thus add to the total amount of effective purchasing power in the economy. In addition, there had been a considerable reduction in the velocity of circulation of money during the period from October 1, 1957 to October 1, 1958, the result of the money supply growing at a considerably faster rate than the production of goods and services. This also resulted in an increase in potential inflationary pressures. Under certain conditions in the future, and especially when other inflationary pressures might be present, there was the danger that the conversion of liquid assets to money and an increase in the velocity of circulation of money might both act to increase the total of purchasing power in the economy and thus add significantly to inflationary pressures.

It is evident that if monetary policies were to be effective they must strike at the roots of the misallocation of loanable funds by reducing the amount of excess liquidity in the economy and also by increasing the velocity of circulation of money. In order to be effective in these objectives, they must also be supported by sound fiscal and debt management policies on the part of the government.

Effect of Rising Interest Rates

The Bank of Canada's most important measure in the implementing of its monetary policies is its control of the money supply. By preventing an expansion of the money supply during a period of growing economic activity, it can cause interest rates to rise. It is the effect of increases in interest rates that actually results in the eventual attainment of the objectives of the monetary authorities. Rising interest rates have the effect of reducing liquidity in the economy and of increasing the velocity of circulation of money, and, by so doing, they bring about a reallocation of loanable funds.

Rising interest rates, under conditions of a constant money supply, have the effect of reducing the liquidity of financial lending institutions, and especially that of the chartered banks. As these institutions reach the limits of their lending capacities, they find that they cannot finance addition-

al loans through the sale of securities without taking a considerable capital loss, for the market prices of their securities will have fallen with the increase in interest rates. In addition, as has been stated by the president of the Canadian Bankers Association, there is a point below which the banks cannot allow their holdings of government bonds to drop and still preserve an adequate volume of liquid resources.

Rising interest rates, on the other hand, may eventually prove attractive to the individual holders of liquid assets or idle funds, and these individuals may be encouraged to put their funds to more active use through their purchase of high yielding corporate or government securities. Thus, rising interest rates have the effect of reducing the liquidity of both financial institutions and individuals while at the same time bringing about a reallocation of loanable funds. The high rates tend to stem the flow of funds from institutions and encourage the flow of funds from individuals.

The process, however, is not a smooth one, and there may be a considerable time lag in the effects that are desired. Interest rates tend to rise first in the market for short-term funds, and the liquidity of institutions and their lending abilities may be reduced long before an increase in long-term interest rates will be effective in reducing the liquidity of individuals through encouraging them to purchase long-term securities. In the interim period, funds may be practically unavailable for many purposes, and serious financial difficulties may be encountered by many sectors of the economy.

In the current monetary situation the money supply has been prevented from expanding for over a year. Meanwhile, the economy has recovered from recession and has been experiencing a period of renewed economic growth. One may wonder how far the current expansion phase must proceed before it is considered by the monetary authorities that additional new money will be required to assist in its financing. It is possible that the Bank of Canada may not have any definite idea as to how much money is required to finance any given level of economic activity. It may be that it will be guided not by any specific goal in the total volume of gross national production, but rather by indications that its restrictive monetary policies over the last year have successfully accomplished their several objectives.

There must be evidence, represented by fairly stable commodity prices, that the monetary policies have been effective in restraining inflationary pressures. There must also be evidence that "potential" inflationary pressures have been significantly reduced, and such evidence will most likely be represented by indications of an increase in the velocity of circulation of money and a decrease in the liquid assets holdings of individuals. These latter indications will also provide evidence that a re-allocation of loanable funds has taken place.

That monetary policies have been effective in restraining inflationary pressures is indicated by the fact that commodity prices in Canada have been relatively stable during the past year. The general index of wholesale commodity prices in October was at its lowest point since last January. The consumer price index has continued to rise, however, and at October was 1.6 above its level at

October of 1958, but most of this rise has taken place within the last two or three months and has been accounted for mainly by a seasonal increase in food prices.

Some reassuring information was brought forth in the report of July 14 of last year by the Canadian Senate's Standing Committee on Finance on the subject of the threat of inflation in Canada. The report stated that there was virtually unanimous agreement among those who gave evidence to the committee that there was no actual inflation in Canada at that time.

There can be no doubt that the monetary policies resulted last year in a substantial increase in the velocity of circulation of money, for the gross national product by the end of the year had increased by about 7% while the money supply had not by mid-November shown any increase for the year. One of the advantages that results from financing a higher level of economic activity through an increase in the velocity of circulation of money is that it does not contribute to inflation psychosis as might be the case with the increase in the money supply. The reason for this is that the general public is not familiar with the velocity of money concept and knows little of the inflationary pressures that can result from an increase in the velocity of circulation of money.

Perhaps the most reliable evidence that will indicate a reduction in liquidity and progress in the reallocation of loanable funds will be a noticeable and continuing improvement in the market for fixed income securities, and especially in the market for longer-term securities. This will be the soundest measure of general recovery from inflation psychosis and the return to the bond market of investor confidence. When such an improvement takes place, and it is obviously more than merely a temporary improvement, then one might assume that the Bank of Canada would be justified in permitting a gradual increase in the money supply to assist in the financing of further economic growth.

Psychological Factors

One of the difficulties that the monetary authorities have had to contend with in the past year has been the influence that psychological factors have had on the monetary situation. Inflation fears and a lack of investor confidence continued to exist even after there were reasonable signs that the basic reasons for these conditions were being rapidly reduced in importance. Not only had commodity prices shown a considerable degree of stability, but the government had taken action to improve its fiscal position. An improvement in revenues resulting both from an improvement in general economic conditions and from increases in tax rates had given some assurance that the government was moving closer to a balanced budget. The government had also shown a considerable amount of restraint in its spending policies.

It was felt by many Canadians that the general lack of confidence that continued to exist in spite of an improvement in basic conditions was due to a lack of understanding on the part of the general public. There remained a good deal of confusion with regard to the government's fiscal policies and the policies of the monetary authorities. This situation was not being helped by the many critical

statements and the appearance of articles that were often ill-informed and destructive in their effects. If confidence was to be restored, it was necessary that more positive and constructive statements be made by those who were in a position to influence public opinion. This would seem to be an essential requirement, for the lack of confidence was preventing the monetary policies from being fully effective and no doubt would result in a continuation of such policies for a longer time than might otherwise be warranted.

Statements Aid Confidence

Realizing the need for a positive public statement, the Investment Dealers Association of Canada, through its president Mr. Norman J. Alexander, made a public statement on October 1, 1959 and went on record as supporting the monetary and fiscal policies designed to maintain a stable dollar. It also stated that there was now basis for renewed confidence in the integrity of the Canadian dollar and the ability of Canadians to finance economic growth in a sound manner. In the following week the Finance Minister, Hon. Donald Fleming, in a speech to the Empire Club in Toronto, made a number of statements of a positive nature regarding government policy and prospects for the Canadian economy. There is no doubt that such statements had a favourable influence on the improvement that has since taken place in the level of investor confidence.

Earlier evidence of a return of investor confidence had been provided in mid-September when the government had striking success in its $325 million refunding bond issue. Since that time there have been a number of successful financings carried out in the Canadian securities markets. It is true that the terms of the borrowings were attractive, but their success was probably due to more than the specific terms of the offerings. A change for the better was undoubtedly taking place in the attitude of investors towards fixed income securities.

Prices of Government of Canada bonds, which had been falling for many months, began to level off in August and since that time have shown a continuing improvement. The yield on the Government of Canada 3% bonds due December 15, 1960, which reached 6.38% on August 19, had fallen to 4.75% by November 5. The government's offering of 91-day treasury bills which had reached a high of 6.16% on August 13 had fallen to 4.83% on November 5.

Sale of Canada Savings Bonds

It would seem then that the policies of the monetary authorities have been effective and thus have been justified. It may be that the restrictions on the money supply will be continued for a time until the improvement in monetary conditions has been fully confirmed. The results of the current Canada Savings Bond campaign will provide a further yardstick for the measure of improvement. To the extent that savings deposits with the chartered banks are used to purchase Canada Savings Bonds, these deposits will decline, but the Government of Canada's deposit accounts with the chartered banks will be increased by approximately the same amount. As the government is in a low cash position, it will make use of such deposits to finance its purchase of goods and services. The sup-

pliers of such goods and services, upon receiving payment from the government, will in turn deposit most of the amounts received with the chartered banks. Thus, the sale of Canada Savings Bonds will actually result in a conversion of savings deposits to current account deposits, and this will increase the velocity of circulation of money while reducing the cash liquidity of individuals. The resultant increase in the turnover of bank deposits will finance a higher level of economic activity even though the money supply remains constant.

The successful Canada Savings Bond campaign will also have benefited the current monetary situation by diminishing the necessity of the government's coming to the market for new money before March 31, 1960, the end of its fiscal year. With the success of the Canada Savings issue, the government will probably have received sufficient new money to meet most of its cash deficit for the current fiscal year. If it should not be necessary to raise new money through the sale of marketable bonds, this will leave the market open and facilitate the financing of the provinces, municipalities and business corporations.

There is little doubt that the Bank of Canada will find it necessary to permit a gradual increase in the money supply during the coming year to help finance continued economic growth. When it decides that such a course is necessary, the Bank will proceed to purchase Government of Canada securities in the open market. Its purchase of these securities will be paid for by the issuance of Bank of Canada cheques. These cheques will be deposited by their recipients with the chartered banks who, in turn, will then deposit them with the Bank of Canada. As the chartered banks' deposits with the Bank of Canada constitute the largest component of the banks' cash reserves, an increase in such deposits will permit the banks to increase their own deposit liabilities with the public. These latter deposits represent money in the hands of the public, and as the deposits are increased through the chartered banks' granting of loans or their purchase of securities, the money supply in the economy will be increased. The chartered banks may then go on creating new money through the granting of loans or the purchase of securities, but only to the point where the cash reserves of the chartered banks do not fall below 8% of their total Canadian deposit liabilities.

Inasmuch as an increase in the money supply requires the purchase of securities in the open market by the Bank of Canada, this action itself will tend to have a beneficial effect on the market for fixed income securities.

Continuous Improvement Expected

There would seem to be a number of reasons, therefore, in looking ahead, to anticipate a continuation in the improvement that has been taking place in the monetary situation, and this should make it easier for Canadian business corporations to raise funds in the capital markets. As more Canadian corporations become successful in raising funds through the sale of securities in the capital markets, a considerable amount of pressure will be lifted from the chartered banks, and this will place them in a better position to look after the normal working capital and other cash

needs of many other, and frequently smaller, business concerns who do not ordinarily have access to the capital markets. Any increase that takes place in the money supply will place the banks in a still better position to assist in their financing operations.

It is unlikely, even with the improvement in the monetary situation that has taken place in the last few months and seems to be continuing, that everyone's monetary troubles will be easily solved. Long-term interest rates will probably continue at a high level in comparison with those of previous postwar years. The improvement in the monetary situation insofar as long-term funds are concerned is not likely to result in any appreciable reduction in cost but should be reflected in a greater availability of such funds.

Commercial Accounting in Egypt

The Hellenic period of Egypt offers us a number of documents written in Greek; but those which deal with the ordinary lives of the population are still written in Egyptian hieroglyphics, so that we are in the presence of a mysterious silence as far as commercial and industrial activities are concerned. But the Zenon Papyri, a comparatively recent discovery consisting of over 1,000 letters, notes, accounts, estimates, receipts, etc., have provided a glimpse of life at that time, *circa* 300 B.C.

Zenon was estate manager, secretary and chief assistant to Apollonios, finance minister of Ptolemy II Philadelphus. His accounts reveal the organization of a flourishing estate – raising pigs and goats on a large scale – and tell us a great deal about the taxes, customs duties, banking system, mercantile law and international maritime commerce of those days.

Accounting then knew an inconvenience which strikes a sympathetic note to accountants grappling with today's inflation and its consequences. Very little money circulated in the Egyptian territories and payments were made as far as possible in kind. This involved the use of a standard currency, the *shat*, into which all quantities of wheat, livestock, clothing, etc., were translated. But it was necessary to know the actual cash balance from day to day. Zenon's accounts show this difficulty, and the efforts made to resolve it.

Apollonios operated frequent test-checks on his servants, particularly where he had reason to suspect some irregularity. We find him showing his dissatisfaction because seven talents had been paid out in cash without his authorization, and cashiers Aristeos and Artemidoros had their books examined, whereas Zenon was notified to have his books ready for a surprise audit.

—K. S. Most, "Accounting by the Ancients", *The Accountant*, May 9, 1959.

Mortgages—A Growing Business

HERBERT WOODARD

THE CANADIAN mortgage scene is an ever-changing one. Years ago, it was depicted in drab shades of shame and human misery. Today, it is painted in the bright colours of promise, as eager prospective home-owners find in it their fulfilment. At the turn of the last century, Mother's painstaking efforts were reflected in "Home Sweet Home", the framed needlepoint motto which adorned the parlour wall. There was never a trace of the mortgage, for Father alone knew of the grim skeleton in the family closet. Nowadays, in the vestibule of many Canadian homes hangs the humorous wooden plaque "God Bless our Mortgaged Home". The mortgage business is out in the open. It has come of age.

This vital and pulsating part of our growing economy has shown fantastic growth in the last quarter-century. Canadian mortgage loans outstanding today aggregate about $10 billion, compared with $1.5 billion some 25 years ago. As a random example of individual growth, one Canadian lender had mortgage loan assets of around $26 million in 1935; yet, by the end of 1958, it had reached the staggering total of about $515 million. The various Housing Acts of Canada enacted since 1935 have contributed to this growth by the provision of high-ratio loans, moderate interest rates and long-term repayment provisions. These have made home-ownership possible to many who could not otherwise have attained their objective.

Far from comprising simple credit transactions between borrowers and lenders, the mortgage business has tremendous impact in many fields. Without a regular flow of mortgage money, housing and industrial growth would be stunted and sporadic. The mortgage business stimulates employment, not only in the construction field, but in the many industries allied to the building trades. It affects the consumer-durable market in seemingly contradictory fashion by diverting available savings from it into real estate channels and yet, at the same time, creating a demand for more consumer-durables in the form of stoves, refrigerators and home furnishings.

In the professional fields, mortgages involve the services of architects, lawyers, notaries, appraisers, inspectors, administrators, fire insurance agents, accountants and auditors. The effect of mortgage-loan transactions is en-

countered by the latter two groups, not only in the books of lenders who acquire mortgage loans as assets, but in the accounting records of builders, contractors and suppliers of materials. Accounts receivable, accounts payable, the semi-trusteed nature of house-purchasers' down payments, the remedies available when a client-supplier's accounts are unpaid, and a host of other aspects are threads which are interwoven in the mortgage tapestry. Yet there is often some confusion as to the fundamentals of the mortgage business. "Mortgage" is an oft-used word but the understanding of its underlying principles is sometimes as obscure as that pertaining to nuclear fission.

Essentials of a Mortgage Transaction

The basic essentials of most mortgage transactions are the borrowing of money and the promise to repay. As further security, the borrower either transfers his real estate to the lender, or gives the lender a charge on it (depending on the relevant land registration system governing the area in which the property is located). Consequently, the real estate security is definitely secondary to the primary promise to repay. The fact that so many loans are repaid in full, without difficulty, is a tribute to the strength of that primary security. Granted, when difficulties loom, on some occasions the lender must take recourse to its rights in the real estate. However, even in times of depressed real estate sale prices, many borrowers continue to make mortgage payments despite the fact that their property is no longer worth the amount of the outstanding debt against it. The reason is (apart from human honesty and hope) that the borrower is contractually obligated to pay. The common misunderstanding of these principles in Canada stems from the fact that both aspects of the borrowing transaction are covered in the mortgage deed, and "deed" has a real estate connotation. (In the United States, the differentiation between the two undertakings is more pronounced as the primary borrowing is usually covered by a promissory note and the mortgaging of the real estate is covered by a separate instrument.)

The lender is known as the *mortgagee* and the borrower as the *mortgagor*, terms which are often misused one for the other. The lender *receives* the mortgage, the borrower *gives* it. A *hypothec* is the Quebec equivalent of a mortgage in the rest of Canada. In general, there are two main types of Canadian mortgage loans. These are *conventional loans* and *National Housing Act loans.*

Conventional v. N.H.A. Loans

In conventional loan transactions, the lender is relatively free to set any terms as to the amount lent, the interest rate, the term of the loan and the manner of its repayment. The general range of conventional loans is about 50% to 60% of the value of the property. The average loan term would be about 10 years. The lender bears all losses occasioned by foreclosure or otherwise and conventional loan interest rates are usually about ½% to 1½% higher than the counterpart N.H.A. rate, partly to allow for loss strain and the necessary reserve provisions for it.

Under the National Housing Act, loan-to-value ratios are much higher, ranging up to 90%, with an average of about 82%. The maximum interest rate is set by the Governor in Council from time to time, although the lender

company is free to charge less than the prescribed maximum rate if it so desires. Loan terms are much longer and may go up to 50 years for some types of residential low-rental projects. For home ownership loans, the *maximum* term is 30 years. However, a home owner is entitled to a statutory *minimum* term of 25 years regardless of his age.

Conventional loans are made on every conceivable type of real estate: on farms, on old and new residential and industrial property, on hotels, churches, sports arenas, stores, etc. In fact, following foreclosure, one Canadian lender company discovered to its embarrassment that it had been the unwitting creditor on property which, for some time, had been under the close scrutiny of the local morality squad. Conventional loan security is indeed diversified.

National Housing Act mortgage loans (with two minor exceptions) are restricted to *new* residential construction either for home-ownership or rental. In fact, an insured loan is not available if construction proceeds beyond the excavation stage prior to its approval for mortgage insurance. Residential mortgage loans made under the Act are insured by Central Mortgage and Housing Corporation, the government's housing agency. This insurance protection, given to the lender, is to offset the presumed higher risk of loss occasioned by high ratio loans with protracted periods of repayment.

Mortgage Insurance

The Canadian system of mortgage insurance, introduced in 1954, had as one of its prime objectives the establishment of a self-supporting system to replace the former joint loan system which had involved federal sharing in each loan, free federal loss guarantees and interest subsidies. Under the new Act, in return for receiving mortgage financing in the form of a high ratio loan with a moderate interest rate and a lengthy repayment term, the borrower is charged a single insurance fee. The Act stipulates the scale of fees. These range from 1¾% to 2½%, varying according to the type of loan and whether the borrower requires only a single loan on completion of the property or needs progress advances during construction. The insurance fee is not payable in cash; it is added to the mortgage loan. Thus, a prospective home-owner, requiring $10,000 to build a house and needing progress advances, borrows $10,200. The $200 insurance fee is remitted by the lender to C.M.H.C. and is deposited in the Mortgage Insurance Fund. The investments of the fund are restricted to Canada bonds or bonds guaranteed by Canada.

If, owing to default, a lender is forced to acquire mortgaged property by foreclosure or otherwise, it may elect to retain, own or sell the real estate or, conversely, transfer it to the mortgage insurance fund in exchange for a cash settlement as detailed in section 9 of the National Housing Act, 1954 (and amendments thereto). Thus, the assets of the insurance fund are cash, bonds and real estate. If the real estate is re-sold by the fund on a deferred payment plan, the resultant mortgage (or sales agreement) becomes an asset of the fund. Each loan insured under the Act is covered by an individual insurance policy which details the insurance undertaking, the loss settlement provisions etc. In view of occasional misunderstanding, perhaps it should be stressed

that the mortgage insurance policy protects the lender and not the borrower. In other words, it is the lender's loan investment that is insured against loss and not the borrower's equity interest.

In the actual loan processing, there are many aspects which are common to both the conventional and N.H.A. loan fields. These are the credit analysis of the borrower, the appraisal of the property, the legal work, the disbursing of the loan, the protective precautions to safeguard the priority of the advances over mechanics' liens, etc., and the loan recording in the books of the lender. In general, however, conventional loan procedures are simpler. First, they involve only two principals, the borrower and the lender. N.H.A. transactions are, of necessity, tri-party transactions because C.M.H.C., as the insurer of the loans, must be closely associated with the procedure. Secondly, many conventional loans are made on existing real estate and do not entail the construction progress inspections which are a vital part of N.H.A. procedure.

N.H.A. Loan Procedure

The following is a digest of N.H.A. insured loan procedure.

A formal application is submitted to an approved lender, such as a bank, life insurance company, loan or trust company, etc. The requisite copies of the plans and specifications of the proposed building must accompany the application. The lender analyzes the borrower's financial position from two viewpoints: first, to ensure that he has the necessary equity available to cover the difference between the cost of the project and the proposed loan. (Land may comprise all or part of this equity.) Secondly, the lender determines, in preliminary fashion, whether the applicant can afford the estimated monthly carrying charges for principal repayment, interest and taxes.

If the lender company is prepared to proceed with the application, it forwards copies of the application form and other papers to Central Mortgage and Housing Corporation, together with an application fee of $35 per housing unit, collected from the borrower. (The application fee is payable to C.M.H.C. to defray, in part, the costs which the corporation will incur in appraising and inspecting the property.) The lender asks the corporation for an "undertaking-to-insure" which, when issued, binds the corporation to insure the loan, provided N.H.A. requirements are met. C.M.H.C. examines the site, makes an appraisal from the blueprints submitted, and advises the lender of the maximum loan it is prepared to insure. (If the application is not approved in the amount applied for by the applicant, the application fee is refundable.) The lender then makes its final decision as to whether the loan is to proceed and advises the applicant and C.M.H.C. accordingly.

If the decision is in the affirmative, the borrower is given a supply of inspection postcards with instructions to mail one to C.M.H.C. at each successive construction stage. On receipt, C.M.H.C. arranges to inspect the quality of the construction to ensure reasonable conformity with the approved plans, specifications and N.H.A. standards of construction. These inspections are not full architectural inspections, but have as their basic intent the assurance of sound security for the insured loan. At least four such inspections are made, with

additional inspections where necessary. When C.M.H.C. is insuring the progress instalments of the loan, it advises the lender of the maximum advance available at each stage.

Coincidentally, work is progressing on the legal aspects of the transaction. The lender selects the legal representative who will search the title and report on it. If the title is satisfactory, he will prepare and register the mortgage deed. The legal representative will also handle the disbursement of the loan, in instalments or otherwise, and is responsible for safeguarding the priority of the mortgage advances over mechanics' liens, etc.

Eventually the full loan is disbursed, the ledger records established and the lender applies to C.M.H.C. for the mortgage loan insurance policy. The borrower is advised as to when his payments commence. Accrued interest is payable on a date known as the *interest adjustment date* (usually about two months after completion or occupancy of the property), and the regular monthly payments of principal, interest and advance deposits for municipal taxes commence one month later. Apart from fluctuations occasioned by changes in the annual taxes, the payments remain constant throughout the amortization period. Thus, in the earlier years, the payments consist largely of interest with a small principal repayment content. As the loan term progresses, the principal component increases as the interest charges decrease, but, as mentioned, the combined payment remains constant.

Builders' Loans

As most Canadians prefer to buy a house, rather than to make their own construction arrangements, the majority of N.H.A. loans for home-ownership are processed initially as builders' loans. When the builder is the initial borrower, the same procedure as outlined previously is followed, with one exception. The lender must retain a holdback of 15% of the loan until the house is sold to an acceptable purchaser who has assumed the mortgage covenant obligations. Sales may take place at any construction stage, and the lender analyzes the credit standing of the proposed purchaser just as if the loan application had emanated from him in the first instance. In most of Canada, the purchaser's obligations regarding the mortgage are embodied in a document known as an *assumption agreement*. In Quebec, the assumption is usually covered in the deed of sale executed by the purchaser.

Just as university students follow standard prescribed courses, but on graduation follow widely diversified careers, so it is in the mortgage business. The processing of loan applications follows a fairly standard pattern, almost an assembly-line technique as far as new construction loans are concerned. However, once the loans are disbursed, the subsequent long-term administration is by no means a routine operation. In a large mortgage loan portfolio are intertwined the destinies of a collective group of human beings. The various vicissitudes of life have tremendous impact on the collection history. Death, illness, unemployment and marital dissension may enter the picture, and the control of payment delinquencies is an absorbing and interesting experience. Salvage operations, the adjustments of repayment schedules to meet changed conditions,

etc. are a major challenge to the administrator, for a mortgagee rarely wishes to acquire the real estate security. It is interested in having its loan repaid, and such is always the primary objective of the administrator.

Besides being an insurer of mortgages, C.M.H.C. is also a residual lender. If an applicant is unable to obtain a loan through an approved lender, the corporation may make a direct loan. In such an event, C.M.H.C. acts in the dual role of both lender and insurer, as its loans, too, are protected by the insurance fund.

The National Housing Act, 1954, has wrought many changes on the Canadian mortgage scene. It has provided country-wide, long-term loans of a magnitude never known before. Home-owner borrowers and builders may borrow 90% of the first $12,000 of lending value and 70% of the remainder, with a maximum loan limit of $12,800 (plus the insurance fee). The Act enabled the chartered banks to become active mortgage lenders and by the close of 1959, the banks' mortgage loan assets approximated one billion dollars. The approved loans by all lenders (as reported in the annual report of C.M.H.C.) had reached the astounding total of $2.8 billion by the close of 1958, covering over 280,000 dwelling units.

However, the National Housing Act, 1954, has wider implication than the basic financing of housing. For example, there is provision for the establishing of an active market in insured mortgage loans. Unlike the counterpart F.H.A. provision in the United States, the holding of Canadian insured loans is not restricted to approved lenders. Granted, the loans must be initiated by such lenders, but thereafter, they may be sold to and held by any person or company, with the sole proviso that they must be administered continuously by one of the approved lenders. While this provision of the Act has been reasonably successful to date, it is likely that there will be considerable future development in this field and in other fields associated with it. By the close of 1958, over 17,000 mortgage loans, aggregating over $178 million had been bought and sold. (Pension funds have been the largest group purchasers, accounting for about 63% of the sales.)

Servicing of Loans

The market for these loans has given rise to a relatively new business in Canada – the servicing of mortgage loans. When loans are sold, since they must be administered by an approved lender to maintain the continuity of the mortgage insurance, the approved lenders enter into servicing contracts with the purchasers. The servicing agent performs all the administrative duties attendant to the loans. These include the collection of payments and their remittance to the buyer of the loans, the maintanance of adequate fire and other insurance, the payment of taxes on the mortgaged property and all other duties normally performed by a mortgagee on its own holdings. The arrangements are covered by formal servicing contracts which set out the responsibilities assumed in servicing the mortgage and the amount of the fee. This fee is a matter of negotiation between the parties when the sale takes place. The usual fee is an annual one of about ½% of the reducing balances of principal. It is sometimes paid monthly although semi-annual fee payments are becoming more common.

Apart from the sale of groups of mortgage loans, there is still lacking in Canada an organization which would make the benefits of N.H.A. investment available to that vast untouched segment which is unable (or unwilling) to purchase N.H.A. mortgages as such, but would be willing to purchase some kind of secured participation certificate. A very profitable enterprise could evolve in this field, but while there has been some interest evinced on both sides of the border, to date no company has taken the pioneer step. In essence, to be assured of success, such a company would need a source of supply of insured mortgage loans available for sale, a willing servicer of the loans and some assurance that its debentures or other obligations would be acceptable to the investing public. The chartered banks and C.M.H.C. are the most likely interested agencies in the sale and servicing aspects, as the life insurance companies usually make loans with a view to retaining them as investments. C.M.H.C., in particular, should be a fruitful source as it is but a lender of last resort, and in recent years, has been forced to build up its direct loan portfolios because of the shortage of funds from normal lending channels. Moreover, this Crown corporation received legislative power in 1959 to enable it to service loans for purchasers.

The marketing of the debentures or other obligations of the new company could conceivably be handled through the investment dealers of both Canada and the United States. If such a company could, from its capital, purchase N.H.A. loans at 101, with an average life of 20 years, it would earn a gross of about 5.40% after paying ½% for servicing. Any margin of this rate over its debenture rate would provide for operating expense and profit. Expenses would be at a minimum as the actual loan servicing is performed by the servicing agent. When it is visualized that the debenture proceeds could be used to purchase more insured loans and that subsequent debentures could be issued progressively, it will be readily seen that the accumulated interest differential would, in the course of time, produce a considerable dividend on the initial capital. It will be interesting to watch developments in this field over the next few years.

Other N.H.A. Objectives

While this article has accented the role of insured mortgage loans in the National Housing Act field, it should not be assumed that the insurance and marketing of such loans are the sole objectives of the Act. Its ramifications are many. The Act provides for loans to limited-dividend companies on low-rental housing; loans to primary industries, farmers and cooperatives; home improvement loans; federal-provincial public housing projects; guarantees on land assembly projects and housing projects owned by life insurance companies; rental guarantees to private investors in housing projects; slum clearance and many other interesting aspects. Each has played its role, sometimes a leading one and at other times a minor one, as the housing scene is ever-changing.

Using the various facets to meet changing conditions and differing circumstances, Canada's housing has made rapid progress since the advent of the first major Housing Act in 1935. If widely implemented, the current Act, broad in its vision, has great potential. Some of it we have seen, much still lies ahead.

Facing Facts in Financial Statements

DONALD GORDON, C.M.G.

For some years now, businessmen have had reservations about the degree of reality actually revealed in financial reports, and the usefulness of these reports as a guide to investment and other business decisions. The reservations stem from a problem that faces all Canadians; indeed it is one that faces the citizens of most countries of the western world. I refer to the consequences of changing money values as these are experienced in periods of inflation and deflation. Since World War II, most countries of the Western world have experienced a continuing decline in the purchasing power of their monetary units, and measures of value based on these units have become more and more controversial. As this inflation progressed, accountants were pressed further and further into the dilemma of how to measure effectively with an inconstant standard.

In this atmosphere it has been charged that inflation tends to eat away the nation's capital because business earnings are overstated, with consequent excessive distribution through incorrect accounting practices. This, of course, becomes a matter of degree, but it does raise sharply the question as to whether or not the accounting profession has a responsibility for determing to what extent the effects of the changing value of the monetary unit should be reflected in the financial reports of a business enterprise. Should the profession accept such a responsibility? I think it must, at least to the extent of deciding upon proper procedures and advocating their adoption. For when assets are acquired at one price level, and are consumed over a period of years, during which money values change, financial statements which do not record these changes are suspect as being unrealistic and, indeed, misleading.

Inflation after World War I

Let us turn briefly to examine how the problem was dealt with in other countries even though the circumstances were much more extreme. During the twenties, inflation became chronic in Germany. From 1918 to 1923, the paper mark declined in value from the equivalent of about two for each gold mark to the equivalent of one million million for each

The substance of an address to the Quebec Institute, Montreal, November 3, 1959.

gold mark. In the early stages of this inflation, accountants continued to employ historical costs. However, as the inflation gathered momentum, it became generally recognized that corporate profits were being grossly overstated and that income taxes were being paid on paper profits. To add to the financial chaos, many corporations unwittingly depleted their capital by distributing these paper profits to their shareholders.

In 1921, the German government formally recognized the problem and introduced a regulation to provide a degree of relief. While income was to be computed in the normal manner, with depreciation based on historical cost, the taxation authorities permitted an extra tax-free replacement fund "to allow for the excess of the prospective replacement costs of the durable capital goods over their common value".

As financial statements became more and more meaningless, an attempt was made to relate the figures to some more stable base. While several methods were devised, the method most widely adopted was that of stabilization or equalization in terms of the gold mark.

The introduction of stabilized accounting resulted in a drastic change from former concepts of fixed asset accounting. In transferring fixed assets from the historical records to the stabilized records, old book value was usually ignored and the current replacement cost (less estimated depreciation) was converted into gold marks. Thus, fixed assets became revalued in terms of replacement value and the depreciation expense, based on replacement, became an element of cost which was taken into consideration in establishing selling prices.

Inflation after World War II

Time does not permit more than a passing reference to the regulations of the countries which have been seriously affected by inflation since the end of World War II. Suffice it to say that the governments of France, Belgium, and Italy have all enacted legislation to provide a measure of tax relief to offset the effects of inflation. (At this point I should interject that as the conditions are not similar, the proponents of stabilized accounting in this country should not expect to alter the incidence of taxation. That is, if a new procedure is accepted and taxation is to yield the same revenue from the corporate sector of the economy, corporate tax rates must be adjusted.) Most of us are probably familiar with the public attention focused on this matter in England in 1951, following the release of the Tucker Report issued by the Committee on the Taxation of Profits. That committee, which was set up by the Chancellor of the Exchequer, heard various proposals for the revision of taxation in view of rising price levels. The report made it clear that the committee was influenced against tax allowances for enhanced replacement costs by the stand taken by the accounting profession. With respect to these proposals for revision, the report made the following observation:

"In essence they all amount to a proposal that a business should be relieved altogether from tax on some part of its true profits, that is to say, its profits as computed on ordinary accountancy principles."

Criticism of this comment was strong in financial circles. One critic, writing in *The Financial Times*, was particularly outspoken:

"You see? True profits, my foot. The life blood of British industry can be drained away so long as the conventions of the Institute of Chartered Accountants remain inviolate. You start off trading with a dozen coconuts and you finish up with 12 peanuts, but you will get your auditor's certificate all right!"

Recommendation of English Institute

It is significant that the Institute of Chartered Accountants in England and Wales had, in 1949, issued a recommendation on rising price levels in relation to accounts. It read in part:

"Any amount set aside to finance replacements (whether of fixed or current assets) at enhanced costs should not be treated as a provision which must be made before profit for the year can be ascertained, but as a transfer to reserve. If such a transfer to reserve is shown in the profit and loss account as a deduction in arriving at the year's balance, that balance should be described appropriately."

In 1952, the Institute amplified the 1949 bulletin. While the opinion was reiterated that historical cost should continue to be the basis on which annual costs should be prepared, the Institute commented on the desirability of "experimenting with methods of measuring the effects of changes in the purchasing power of money on profits and on financial requirements". The Council recognized that profits as measured conventionally do not measure increases or decreases of wealth in real terms; that the accounts do not show how much profit can be prudently distributed to shareholders; and that the results shown by the accounts are not suitable for purposes of fixing selling prices, taxation, or for use as a basis of wage negotiations.

Canadian Trend

In Canada the question has been under discussion for about 20 years. The issue was probably liveliest shortly after World War II when industry both here and abroad was faced with the financial burden of a large volume of capital replacements at a higher price level. It is my impression that the majority of accountants in this country still favour the historical method of accounting. In support of their contention these accountants argue that a business which bought assets during a period of low price levels is at a definite cost advantage, and that necessary funds for replacements may be retained within the business by present recording methods. However, an increasing number of dissenters have emerged who favour some form of stabilized accounting. Many of them hold that the additional cost of replacing an asset at a higher price level accrues throughout the life of the original asset, and that this cost is a proper charge against the revenue produced by that asset. The dissenters also maintain that, under present practices, provision for replacements at increased costs is not consistent, since it is dictated by managerial expediency.

The problem is not related solely to fixed assets, but to other balance sheet items as well. Inventories, for example, are normally held by an enterprise for a relatively short period. In many businesses, inventories constitute a significant item on the balance sheet, and their counterpart, cost of sales, is usually the largest expense shown on the income statement. Thus, even a small change

in the value of the dollar between the time of purchase of an item and its subsequent sale can have a significant impact on the financial statements.

I am told that those accountants who agree with the contention that profits will be overstated during periods of inflation have attempted to relate current costs to current revenues by adopting the last-in, first-out (commonly called *Lifo*) method of accounting for stores. You are aware that under this method an assumption is made, for costing purposes, that the last units of a particular material received were the first items used or sold.

Even under the *Lifo* method of accounting, however, significant difficulties may arise. An outstanding example of a defect in this method is the impact it had on the profit of the United States Steel Corporation during the 1949 strike. During the strike that corporation produced no new stocks, and it sold from basic inventories at former dollar costs. As a result, in the last quarter of 1949 the operating statements revealed $17,000,000 of abnormal profits on which the income tax amounted to $7,000,000. Under ordinary circumstances and using the *Lifo* method, this abnormal profit would not have been revealed and the amount would have remained concealed in the inventory valuation. It appears to me that accountants must adopt a method which will disclose such significant factors.

Meaning of "Income"

It is interesting that the accounting concept of income has always varied from that of the economist. Most economists subscribe to the view that income is the product resulting from the application of labour and capital resources. When referring to costs, the economist normally means current costs, and he considers historical costs to be of little or no relevance. On this basis, profit is the spendable income arising from a business, which accrues to those who risk their capital and effort. Profit, therefore, is that part of income which may be spent without depleting the capital of the business. That is, as one authority on the subject has put it, if we are to maintain our level of real investment, the fruit may be picked but the tree may not be felled. From this, it seems probable that economists in general would not oppose those accountants who suggest a change in present methods.

We shall have to ask some very searching questions before we can reconcile the historical accounting view of income with the economic view. In a going concern, goods will have to be replaced. Then what is the nature of the difference between historical cost and the replacement value of the goods exchanged? If our inventory of goods appreciates through a rise in the price level, is the amount of appreciation expendable? If an entrepreneur invests $100,000 in 1939 and he has $100,000 in 1959, has he protected his capital when the purchasing power of this investment has fallen substantially? Or, can we justify either morally or economically solicitation of the public for funds to replace those lost in prior years of inflationary erosion?

Two Functions of Accounting

Now when we try to consider the accountant's duty in respect of the effects of the changing value of the monetary unit and its impact on financial reporting, it becomes necessary,

among other things, to define the functions of accounting. Again this is beyond my ken, but I shall select two rather obvious functions that come within the orbit of my topic. One is the provision to interested parties (such as owners and creditors) of dependable information on the financial status of the business enterprise. This very definition asks its own questions. Is this being accomplished if financial statements do not attempt to record economic conditions which may have already had a serious impact on the financial affairs of the company? Even if the basis of valuation is stated on the balance sheet, can the public accountant continue to certify annually that the financial statements present a true and correct view of the affairs of a business concern? And if we agree that it is generally recognized that an accounting problem exists because of the change in the value of the dollar, are accountants justified in continuing to refer to "generally accepted accounting principles", if certain basic principles are coming under increasing attack?

It is my understanding that one of your fundamental conventions deals with consistency of presentation from year to year, and another convention requires that, given a reasonable choice, the accountant adopts the more conservative stand. But are the financial statements consistent if they do not distinguish between a 1939 dollar and a 1959 dollar? And is your stand conservative if the income is over-stated by the difference between accounting profits and economic profits?

The other function to which I have referred may be called the internal financial reporting function. It is my opinion that accountants must provide management with reliable information which will assist in the control of the enterprise. Again we must ask whether accountants are supplying the best possible guidance for the formulation of policies on such matters as dividends, expansion, pricing, credit, and analyses of earning power. Managements must consider carefully the possibility of dissipation of real capital brought about through present recording methods. If recorded profits are inflated through the effects of changing money values, is it not reasonable to assume that real capital may be depleted through demands from shareholders for larger dividends, and from employees' representatives for higher wages? Is the life blood of industry indeed being drained away?

I have said enough to show that I believe inflationary tendencies have a profound effect on the affairs of an enterprise, and that I am far from satisfied that this impact is sufficiently disclosed in financial reports. There has been a great deal of controversy over the adoption of correctives for the problem, but it is certain that the discussion has far exceeded the action taken.

Suggestions for Action

The question is, therefore, how best to get the group effort in the form of research and analysis that must precede any formal action. There are some obvious preliminaries and for what it may be worth, I shall round off my comments with a summary of some impressions I have formed.

The first step might be a clarification of the audit certification which is appended to financial reports. I believe that the public accountant should specifically mention that the reports

referred to do not attempt to record changes in the value of the monetary unit. This proposal is intended only to highlight it and ensure that interested parties are not misled by certified statements in which various price levels are represented.

It is worth calling your attention also to the approach of the American Accounting Association to the financial reporting phase of the problem. As early as 1951, that Association made a ruling which was both cautious and prudent. While the ruling noted that the "primary financial statements should continue to reflect historical costs", it recommended that adjusted dollar statements be given a thorough test. The bulletin said that such statements should be supplementary to the financial reports based on historical cost, and that the two types should be fully reconciled in published accounts.

There are any number of proposals that ought to be examined. Some provide for the substitution of current costs on the formal records of the company and even suggest the type of index which should be employed; some may be too radical and require study in respect of legal aspects, and yet others may offend against what may be called fundamental principles. But all should be known to your Institute, and a program of research and analysis embarked on for that purpose.

What is needed, surely, is an organized and systematic effort fully approved by your membership, having for its objective a series of definitive recommendations to such authorities as may be involved. The members of the accounting profession must agree among themselves before they can gain acceptance of their views from the business community or from governments.

Public accountants have built up an enviable prestige through a high level of competence and ethical practice. Your opinions carry considerable weight in business and governmental circles, and you have given your opinions wisely on such matters as taxation, revisions to the Canadian Companies Act, and so on. But for 20 years you have been arguing among yourselves about the most important accounting question of our generation, and the shibboleth of "generally accepted accounting principles" has prevented your profession from coming up with forthright recommendations.

It could be that this has been the safest course for you to follow. It could be that efforts to make the financial statement reveal the impact of changing money values would provoke so many other difficulties that the cure would be worse than the disease. If that is the decision, so be it, but you will not convince thoughtful people that it is the right answer until your opinion is supported by careful research and analysis.

Payroll Writing Systems

ERNEST C. PAPAS, C.A.

OF THE MANY tasks demanded of the accountant and his record-keeping systems, few have been so directly affected by the evergrowing variety of deductions and reports required by governments, unions and employees as that of payroll preparation. As a result, this task has become increasingly difficult, and a number of methods have been developed to meet the challenge of handling a wide range of payroll work accurately, quickly and at the lowest possible cost.

The purpose of a payroll writing system is to provide each employee with his periodic earnings and at the same time to report this payment to the employee, to management and to the government.

Payroll Forms

There are four forms basic to all payroll writing systems:

1. A pay cheque or envelope stating the net payment to the employee.
2. A statement of earnings and deductions for the employee usually containing the record of earning and all deductions for the current pay period.
3. An employee's earning record showing the complete history of all payments and deductions affecting his pay. This is the record from which federal and provincial income tax reports are normally prepared.
4. A payroll journal providing a complete reference record of payments, deductions, and final control totals for the pay period, thus becoming a two-purpose record: a complete payroll and cheque register.

Seven Methods

Because of costs involved, high-volume payroll writing demands uniformity of method. There are seven recognized methods used in whole or part throughout the world. These are:

1. Pen and ink
2. Hectograph
3. Pegboard
4. Ledgerless bookkeeping
5. Accounting machines
6. Punched cards
7. Electronic computers.

In order to evaluate and compare the advantages, possibilities and limitations of these methods, a very detailed study of each would have to be made. The following descriptions are meant not for the student but for

those who wish to obtain an overall concept of current practices.

Pen and Ink

Pen and ink entries in the payroll journal include names, clock numbers, weekly hours separated into regular and overtime periods. This information is obtained from clock cards or attendance records. Rates of pay are usually entered from an authorized rate book. An addressing machine is sometimes used for constants, such as name, rate and clock number. Deductions are listed in the journal and the net pay is obtained from cross adding after each deduction column has been calculated. Grand totals of pay and deductions should be added, and each page balanced.

From the completed payroll journal, pay cheques are written. This necessitates rewriting the name and net pay. Employees' statements of earnings and deductions are also copied from the journal involving the rewriting of name, clock number, regular hours, overtime hours, gross pay, federal and provincial taxes, other deductions and net pay. Much of this information is rewritten again on the employee's earnings record.

The following figures will show the extremely repetitive procedures inherent in the pen and ink method:

Name — 4 times (weekly time card, journal, cheque, statement)

Clock number—3 times (weekly time card, journal, statement)

Hours worked — 3 times (journal, statement, earnings record)

Gross payroll — 3 times (journal, statement, earnings record)

Each deduction — 3 times (journal, statement, earnings record)

Net pay — 4 times (journal, statement, earnings record, cheque).

The continued rewriting, checking and balancing takes considerable time even with the aid of addressing machines for constant information.

Hectograph Method

The hectograph or duplicating method is aimed at eliminating the re-writing necessary in common pen and ink practices. A master copy of the payroll journal is written using a hectograph pencil, ink or typewriter ribbon. Copies of the payroll journal are then run off using the gelatine reproducing system. The individual employee's pay cheque (or envelope), statement of earnings and deductions, and earnings record are produced through the use of blockouts on the payroll journal master.

Pegboard Systems

Like the hectograph method, the pegboard has been designed in order to eliminate repetitive handwriting procedures. Since it also avoids sizable investment, it is particularly suited to small or medium-size concerns. In this system the payroll journal and related forms are collated manually. The payroll journal is placed on the pegboard and covered by carbon paper. Names are prewritten on the payroll journal and are visible at the left-hand side during the writing operation. An employee's earnings record is placed in position so that the correct line of the earnings record and payroll journal coincide. Over this statement of earnings and deductions a pay cheque is positioned, and carbon impressions are thus made on the journal and the employee's record of all the required information, such as pay period, rate, regular earn-

ings, etc. The body of the cheque proper is written in a separate operation.

Against this method is the difficulty of auditing the payroll journal before all forms are completed. In its favour is the very nominal cost involved for a system identical in principle to the much more expensive accounting machines.

Ledgerless Bookkeeping

Payroll procedures for ledgerless bookkeeping involve filing copies of pay cheques for various purposes. After the payroll journal has been completed with all computations made, the cheques are typed with three carbon copies showing name, date, pay period, hours worked, gross pay, federal and provincial taxes, other deductions and net pay. The original is given to the employee as his pay cheque. The duplicate serves as the employee's statement of earnings and deductions, and the triplicate is a tax copy filed in individual envelopes for each employee. Recapitulation is made at specific periods to obtain accumulation of pay, taxes, and gross payroll. The quadruplicate serves as a cheque register.

Accounting Machines

Accounting or bookkeeping machines can be used to write pay cheques and employees' earnings cards and to obtain related payroll records. Of all payroll writing systems, the accounting machine is one of the most common. While it necessitates a substantial capital investment, most businesses find the flexibility, accuracy, speed and convenience of the machine conducive to administrative efficiency.

There are numerous types of accounting machines available on the market. Before one is selected, a detailed study should be made to evaluate the various machines for price, speed, flexibility, number of registers and visibility. Since the sales representative of the machine manufacturer trains the employees who will use the machine, and ensures that the installation is adequate for its task, he should be chosen with almost as much care as the machine itself.

Payroll accounting machine applications can be classified as the unit and dual writing plans. The advantage of the unit writing plan is that in only one step the pay cheque, employee's earnings card, statement of earnings and deduction and payroll journal are completed. The two latter documents receive carbon impressions. It is sometimes desirable to produce the payroll and related forms in two steps (dual writing plan) in which case the pay cheque, statement of earnings and deductions, and payroll journal are obtained in one operation and the employee's earnings card in another. The latter plan is normally adopted when the time between the last day of the pay period and pay day is short, and it is desirable to incorporate statistical data on the employee's earnings card, such as earnings and deductions to date.

There are three basic machines with varying numbers of registers and cross footers, the most popular being the numeric keyboard machine with a moving cylindrical platen. The second principal design has an alphabetical and numeric keyboard, and the third a numeric keyboard with a printing table.

1. Numeric Keyboard Machine

This machine prints, in the same

operation, the numeric portion of the pay cheque and the employee's earnings record as originals, and the payroll journal and statement of earnings and deductions as carbon copies. A cross footer is used to subtract deductions from gross earnings and thus automatically produces net earnings. The registers are used to accumulate the classes of deductions and net pay separately so that individual totals can be proved against control totals. Addressing equipment is normally used to write the alphabetic data and any constant data such as the employee's clock number. While completing the task quickly, it also avoids the possibility of errors inherent in repetitive and unchallenging detail work.

2. Alphabetical and Numeric Keyboard

   This style machine produces the payroll and related forms in a similar manner, the main difference being a typewriter attachment which enables the typing of the descriptive data.

3. Numeric "Printing Table" Machine

   The main feature of this machine is that all four records are original copies posted simultaneously without carbon. This is achieved by means of a transverse printer, with all constant data entered by an addressing machine. The elimination of carbon paper substantially reduces the cost of the forms. The operation of this machine differs somewhat from the designs described above.

All the accounting machines mentioned can be designed to compute and print total earnings to date, total income taxes to date and total pension contributions to date on the employee's earnings record. The availability of these balances at year end simplifies the preparation of employee T4 slips and other governmental forms. Such features as automatic cheque numbering and deduction column selection are also available.

Employees' earnings records can be designed to accommodate the unemployment insurance bulk plan record.

Punched Card Application

In payroll work punched card equipment speeds up earnings and tax calculations and makes possible the rapid production of the payroll and associated records, while the card itself provides a good medium for bringing forward standard payroll data from period to period.

The degree of automation will depend upon the size of the payroll and the economical use of the equipment for other purposes, such as labour distribution. In many cases, it will be necessary to find the economic balance between mechanical and manual methods depending on the return which the company expects for its investment in the equipment.

In order to run a payroll on punched card machines, four types of cards are generally required:

1. Master Name Cards

   These cards contain constant information for each employee such as name, clock number, department code, etc.

2. Gross Wages Cards

   These are designed to summarize each employee's gross earnings

for the pay period. Gross wages are normally arrived at, after the punching of hours, days, etc., by extending time by rate in a calculator using master rate cards which record the pay rates for each employee. In some cases, the rates are carried in the master name card, and the name cards are merged with the gross earning cards before calculation.

3. STANDARD DEDUCTION CARDS

   Standard deduction cards contain the fixed deduction items applicable to each employee as well as the income tax rate or fixed amount of tax deduction. These cards can be listed at each pay period to provide a deduction register and after updating, where necessary, can be carried forward to the next pay period. In some cases, it is also possible to record hourly pay rates in the deduction cards which will then also serve to extend the gross wages cards referred to above.

4. NET EARNINGS CARDS

   These cards record details of gross wages, total deductions and net earnings per employee. They facilitate preparation of pay cheques and also are used to prepare cumulative earnings cards.

The procedures for writing the payroll journal from the above groups of cards follow these lines:

(a) *Extension of gross wages.* Total hours per employee, including bonus hours and overtime, will be punched and the value extended automatically by calculator. In a manual operation the extension will be made on the clock cards or time sheets and punched directly into the gross wages cards.

(b) *Calculation of net pay.* Gross wages cards will be combined with the standard deduction cards and processed through a calculator to compute net pay.

(c) *Calculation of net earnings.* After the net pay for the period has been calculated, the payroll journal will be listed on the tabulator and the earnings and deductions per employee will be automatically summarized into a net earnings card.

(d) *Pay cheques.* The net earnings cards are combined with the master name cards and are used to produce the pay cheque showing details of gross wages, deductions and net earnings for the current pay period.

(e) *Payroll records.* The net earnings card will also be used to update a cumulative card which will produce the income tax returns at year end, and at the same time can be used as a posting medium to individual employee records.

(f) *Listing of gross wages.* The gross wages cards can be listed by the tabulator to provide a breakdown of earnings by cost centre, department or section, and this is often required for reconciliation with labour cost schedules and for other control purposes.

Electronic Computers

The preparation of payrolls and related reports is one of the more common applications found on computers. This is probably due to the fact that payrolls have long been highly mechanized on conventional punched card

equipment, and thus were a convenient starting point for the introduction of computers, rather than that there was any intrinsic suitability of the one for the other.

The advantage of using computers for payroll processing is the high degree of automation which they can bring to the several steps involved. While they vary greatly in speed, capacity and flexibility, all computers have the following capabilities: (a) they can operate automatically from a stored program of instructions, (b) they can store in their memories the intermediate results of processed data for re-use later in the process, and (c) internally, they manipulate data at electronic speeds. In addition, most computers are able to digest the required input data at a relatively high rate of speed, and similarly have a high speed output of data in a variety of forms.

These capabilities, when used for a payroll application, make it possible in one operation to produce a variety of the requisite statements, reports and analyses from the original payroll data. For example, a typical application will encompass the simultaneous printing of the payroll register, pay cheques and covering statements of deductions and earnings, while at the same time year-to-date earnings, labour distribution and salary analyses are developed on punched cards or magnetic tape for later report preparation. Thus, the time for the complete cycle is drastically reduced due to the parallel operations performed and to the inherent speed of the equipment.

A further advantage of computers is the accuracy of their operation due to their ability to cross check their own results, and also to reject input data which fails to meet programmed tests for reasonableness and consistency. The resulting better quality of output can be particularly important in a sensitive area such as payrolls.

Despite the advantages of high speed integrated processing which computers possess, their use for payroll work has certain disadvantages. Even the "small scale" computers are expensive to buy or rent, and generally have more computing capacity than is required. Computers need a relatively high-work volume to make them economically feasible. Their use demands expensive methods study and they require a highly trained staff for their programming and operation. They are subject to mechanical failures, which can be both costly in time lost and embarrassing in terms of meeting critical deadlines. For efficient operation, computers require highly standardized and well-edited input data. Up-dating of master information, if it is stored on tape, can be an expensive operation.

Planning Your System

Many machines accomplish savings in work by doing several operations simultaneously or by providing information as a by-product. Frequently, however, this same saving, or even a greater saving, can be made by eliminating or revising one or more of the operations of the existing system. Machines should not be used to do something that need not be done at all.

In many cases the records and information required to prepare a payroll also provide the information on labour efficiency, machine utilization, output, etc., used by management and supervisors to control day-by-day operations. In designing a payroll sys-

tem, these requirements must be considered if an efficient system is to be developed.

The first step therefore in preparing for a payroll system is to determine requirements, not only the statistical requirements, of government and union in respect of earnings, but also the information needed by management in the day-by-day control of operations. Methods alone should not be considered, for the real issue, in many cases, is not what method should should be used to process data but what data should be processed.

General Practitioner or Specialist?

At the present time, management accounting is generally in the hands of two classes of accountants, and they are both specialists. These classes are the specialists employed within business and the specialists who offer their services as consultants or advisers. Where the circumstances are that a business which employs specialists on its staff also employs consultants for specified purposes, there will often be a natural division of duties which will leave the consultant with the primary job of doing the installation work and of initiating improvements, while the work of creating the right atmosphere, keeping systems running and interpreting the results will be handled by the permanent staff. The outside adviser who is consulted by a business which constitutes "virgin ground" will normally hope that by the end of his work he has not only put in something that was not there before, but has also provided the client with a staff which is able to run it. In so far as the majority of management accounting installations have been with medium and large businesses, this is no doubt true; but as the salesmanship of management accounting spreads to smaller businesses our profession will be faced increasingly with the problem of getting management accounting to work in a business which is never likely to be large enough to run its own specialist department.

—Christopher Bostock, "Every Accountant a Management Accountant", *The Accountant,* December 5, 1959.

Public Bookkeeping Services

WILLIAM W. POLLOCK, C.A.

SMALL PUBLIC accounting firms normally start with a high percentage of bookkeeping work and other incidental services entirely outside the audit field, although they also accept engagements of any type normally done by public accountants.

The various Provincial Institutes of Chartered Accountants require students of practising firms to receive broad professional training and tend to discourage the use of juniors entirely on bookkeeping work. Strictly followed, this means that chartered accountants need to separate their audit and bookkeeping assignments. As a firm develops, the bookkeeping and similar services are best operated as a separate department.

Bookkeeping Staff

It is usually found that bookkeeping work, involving less responsibility, yields substantially lower profits than does an audit. Some firms have acquired staffs particularly adaptable to these services. A typical bookkeeping staff in a well-organized firm may have a senior in complete charge who is not a chartered accountant, but who has had specialized training and completed correspondence courses. He is a man of excellent accounting ability, able to handle staff and clients, willing to offer first-class service wherever and whenever required. Under him, he may have one to three supervisors, normally men whom he has trained and who, in turn, take charge of bookkeeping personnel. The staff is composed of some older bookkeepers and accountants, none of whom is taking a degree, and some younger accountants who are being trained to specialize in bookkeeping and income tax work. In either case, a bookkeeper may be either male or female. The work may be done in the client's or the firm's office, as long as each individual has a desk of his own. It has been found that it is easier for the male members to travel from job to job or out of town. Normally they use their own cars, the expenses of which are paid by the employing firm. However, some female employees enjoy working out of the office, and if they drive an automobile, they sometimes prove to be as flexible as the male employees.

The work of a bookkeeping department comes from industrial, commercial or professional firms, or individuals. They call upon outside help because of one or more of the following reasons:

1. There may not be a sufficient

volume of bookkeeping work to justify the wages of a full-time bookkeeper.

2. There may not be adequate space or equipment for a full-time bookkeeper, or special situations may require that the work be done off the premises.
3. The establishment may periodically require the services of a person who is familiar with various government reports and other similar matters.
4. There are especially busy periods such as the month end, year end, or peak business periods where the firm's own staff cannot keep up the volume of work.
5. When the establishment does not have trained personnel to assist the management in proper administration of the business, seniors of the bookkeeping department may be called on to advise management on matters connected with the daily operation of the business.

Nature of Work

The work of this department may consist in:

1. Doing the complete bookkeeping work of small firms on a monthly basis, preparing monthly financial statements and interpreting them for the owners.
2. Attending at the client's office to check the books kept by the proprietor, members of his family, or his employees.
3. Doing either of the above on a quarterly or semi-annual basis.
4. Attending income tax inspections to assist in answering queries; answering questions by the Sales Tax Department, Workmen's Compensation Board, Unemployment Insurance Commission or the Wage Department of the Department of National Revenue.
5. Reviewing the balanced figures as reflected in a general ledger trial balance at the end of a year, making the necessary adjustments pertaining to depreciation, inventories, prepayments and accruals, and other year-end items, and preparing the financial statements.
6. Reviewing a summary of the year's transactions and the various assets, liabilities, drawings and other balance sheet figures which may have been accumulated on a single outlay basis or in a manner peculiar to the individual. Making necessary adjustments without delving into reasons for small differences or discrepancies (a procedure not approved by auditors) and completing the financial statements.
7. Assisting the client in obtaining the particulars necessary to prepare financial statements.
8. Preparing staff payrolls and cheques for payment of wages to the client's employees.
9. Purchasing unemployment insurance and vacation with pay stamps and affixing them to the employees' books.
10. Preparing customers' invoices and statements and mailing.
11. Preparing cheques for payment of accounts payable, obtaining client's signature and mailing.
12. Preparing income tax returns for proprietors, partners, small corporations and their officials.
13. Preparing workmen's compensa-

tion, wage, statistical and sales tax forms.

14. Discussing details of annual financial statements with the owners, comparing the results of operations and the financial position with prior years, making recommendations for collection procedures, reductions in costs and expenses, effective advertising policy, and the numerous items leading to greater profits and a better capital position.

15. Balancing accounts receivable or accounts payable records as required, usually on very short notice. This work is sometimes required to be done for a client of the audit department.

16. Supplying typing, stenographic or bookkeeping staff to firms during holiday periods, times of great activity where the normal staff cannot keep up, or at times of sickness or other emergencies.

17. Discussing problems concerning the incorporation of a company explaining to the owner the tax advantages or disadvantages, the protection which might be expected from incorporating, some of the additional problems inherent in a company, the various classes of shares available in an incorporated company, the ease of transfer of shares, the improved basis for admitting others into the firm.

18. Extending and summarizing inventories and sometimes supervising inventory taking.

19. Giving explanations to bankers and others on behalf of the client, and assisting with applications for bank credit.

20. Giving advice regarding succession duties and estate taxes, gift taxes, and income taxes, including proposals for *inter vivos* gifts to members of the family.

21. Making changes in accounting systems in order to provide more information or reduce the work involved, including recommendations for the purchase of bookkeeping machines and other mechanical equipment.

Assisting New Businesses

It is often found that the proprietor of a new business is quite unfamiliar with many aspects of the office. In such cases, a first-class bookkeeping department can offer him invaluable assistance on such unusual matters as the registration of the name of his business and the necessity for having his solicitor take care of this and other legal matters, instructions on the requirements of the Unemployment Insurance Commission and the Workmen's Compensation Board and the necessity for making deductions from employees' wages and remitting them by specified dates, and numerous other small matters which might not otherwise come to his attention early enough to avoid difficulties. Usually, such an individual is not convinced that a complete bookkeeping system is necessary, and needs to be advised of the pitfalls to be avoided by keeping adequate records, even though these may be quite simple. Such a person cannot usually interpret the results of the figures obtained from his records and will require assistance to understand the profit and loss statement and the financial position of his business.

Even though many services are of a minor nature, it is important to the accountant that the charges be such

that salary levels can be maintained at slightly better than outside salaries in order that well-trained employees will be encouraged to stay with the firm. It is important that the firm compete with industry on such items as group insurance, medical and sickness provisions, hours of work and holidays.

A firm offering a comprehensive service of this nature will find that a large percentage of its work comes in the winter time, following the normal December 31 year end. Some of this work can gradually be adjusted to other times of the year by inviting changes to fiscal years ending between April and November, as long as a fiscal year ending during this period is more appropriate to the specific business. January, February and March year ends can be troublesome for the public accountant especially for offices with a large number of income tax returns to file.

Since most of the work in this department requires minimum responsibility from the auditor's viewpoint, provided the matter of secrecy of clients' affairs can be instilled in the employees, it is possible in these departments to employ seasonal workers. Often these workers are content to return to the firm for four or five months in the winter, and up to one-third of the staff might be on this temporary basis. Because these employees are not present at holiday time and have practically no lost time, they are normally paid a somewhat higher salary to compensate for these items.

Billing Procedures

A firm operating a bookkeeping department will find that charges for this type of work will be less than fees earned on an audit engagement. However, each bookkeeper will develop specialties and types of work at which he is best suited, and a good manager, taking advantage of this, can strengthen his department, pay higher salaries, and charge higher fees than would otherwise be the case. A selling price per hour should be established for each individual, and time sheets should be maintained with even more detail than is normally kept by auditors.

It will be found advisable to maintain time ledgers posted weekly or semi-monthly or other adequate time records. The time from these records is summarized by the office accountant who prices it. The employee in charge of any particular assignment prepares a billing notice indicating the work done, and forwards the billing notice, and the selling value of each individual's time to the office accountant who then can supply the head of the department with a copy of last year's invoice. From this, an invoice can be dictated, the time compared with last year and the new fee set.

It will be found, due to increasing costs and unforeseen problems, that often the fees exceed what seems to be practical for the work done, and a decision will have to be reached whether the bill is to be reduced, whether additional work was done which should be explained, or whether recommendations should be made for a reduction in the work for the next year. The decision depends on a knowledge of the client and his requirements.

In cases of monthly jobs, no billing notice is required except at the year

end. The monthly invoices are prepared by the billing department based on the time involved, using a standard wording and approved by the manager of the department.

It will often be found that the first year's work is not profitable due to unforeseen requirements or less effective use of time at the outset. The fact that a fee was set in advance and the time has exceeded the estimate, or many other circumstances, not the least of which is the client's inability to pay, may also decrease the profitability. However, intelligent handling usually means that the fee for future years will be commensurate with the services. It is important to recognize that, if losses are apt to occur annually on an account, the account should be discarded after all attempts to increase the fee, reduce the work, or otherwise satisfy the client, have failed.

There are many ways to improve the efficiency of a staff, which in turn increases the fees available for the work. These include the employment of appropriate adding machines, calculators, or comptometers; the use of proper desks and comfortable chairs; good lighting and possibly air conditioning; good arrangements for transportation; payment for overtime and special effort; and salary adjustments at least twice a year. Transportation costs can be kept to a minimum by arranging schedules for employees so that two automobiles are not in the same district or town on the same day.

Audit Department's Friend

It will be noted that, by the above arrangement, the bookkeeping department is almost wholly separated from the audit department. Nevertheless, the audit department should be the bookkeeping department's best friend in helping to obtain new work, and the bookkeeping department, in turn, will develop audit clients as partnerships and proprietorships grow or incorporate and are transferred. It may not be found practical to transfer all incorporated companies from the bookkeeping department, because of the client's insistence that he does not want an audit of the firm's own bookkeeping or his preference for individuals who have helped him in the past.

The success of the department will depend on the attitude of the partners of the firm towards this phase of their practice, the ability of the department's manager, complete co-operation between them, and the type of service offered. A public accountant who offers a service which fully satisfied the requirements of his clients is bound to increase his auditing practice and at the same time add to the standing of his profession in the business community.

C. I. C. A.
CONFERENCE
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Accounting for Management

What is Expected of the Comptroller or Treasurer

J. W. Kerr

THERE ARE many reasons why a session on "Accounting for Management" should be part of this conference program. Many new situations have developed in recent years and hardly a week goes by without some further development that affects our methods of doing business. Mechanization, automation techniques and other new approaches to the productivity problem create new standards of the labour and material content of our costs. Financial regulation of some industries by government agencies, modifications of taxation procedures and other similar governmental actions focus attention on the significance of management accounting. New products, new markets, increasing population and other similar marketing developments are important to us. New materials, machine tools and forms of energy, such as nuclear energy, and the availability of natural gas are changing our methods and costs. These are but a few factors in the complex and changing nature of business today which emphasize the importance of good financial management.

Qualities Needed

To describe "What is expected from the comptroller or treasurer", it is necessary to think about the personal qualities and abilities of the person who will hold the job.

Today, it must be assumed that the comptroller or treasurer has an adequate fundamental knowledge of finance, banking, economics and taxes as well as of the accounting procedures that have developed since the accounting profession advanced from the era of simple bookkeeping. Today, he must be a manager and administrator in the fullest sense and must have learned how to achieve good human relations with all his business associates. It is imperative that he conduct himself as a member of the management team.

His specialized and talented ability will be wasted if he does not understand the necessity of approaching company problems in parallel with the thinking of all other members of the team.

If he leads instead of drives, has genuine warmth and instinctive liking for people, knows how to and does

listen, surrounds himself with people who foster human relations with their decisions, then his attitude will be reflected by the rest of his departmental team and particularly by the management team.

The comptroller should also be a good administrator. A good administrator knows how to analyze problems, set goals for his people, organize the work, and deputize the people in his department. He must also have ability to lead, which is merely the skill of getting things done through people, not by people. Then he gets the best out of the group because they trust him and have confidence in him, and his instructions are carried out without resentment.

If he is a manager, the comptroller will understand what motivates people and realize that the motivations must be satisfied. People are motivated by two basic desires. One of these big yearnings is for security, not from hunger or danger, but the security that comes from knowing what the comptroller or treasurer expects, and particularly from praise for a job well done, or from prompt discipline for an error in judgment or for a sloppy job. The other big yearning is the desire to accomplish something worthwhile. This is the powerful force that motivates men to accept greater responsibility, to make suggestions and to "stick their necks out" constructively.

The comptroller must have character if he is to be a good leader. This is like the steel framework of a skyscraper. Although it is not seen from the outside, it makes the building strong, safe and able to withstand the storm. Then there is that difficult-to-describe quality called personality. This is just the package — bright and inviting, or sombre and forbidding— in which a man wraps up all his personal characteristics and presents them to the other members of the team. Anyone, if he will try, can develop a fairly attractive personality, simply by finding out what pleases people and then resolutely setting out to please them.

With respect to personality, it can be truthfully said that the early training of a public accountant causes him to create the impression that he is by nature cold and calculating. This is understandable because his normal routine is to criticize the records and achievements of those whose results he is auditing. But he should remember that it is possible to do the job, correctly and completely, and still please people. Chartered accountants entering management accounting must strive to overcome their lack of acceptance by other members of the management team by continuous development and improvement of their ability to get along with people.

Without good human relations the team play will be weak, and such necessary functions as expense control, inventory control, variance analysis and future planning will not be taken seriously. The situation may even deteriorate to a point where other departments do their own accounting or prepare their own analyses or statistics.

JAMES W. KERR, B.Sc. is president and chief executive officer of Trans-Canada Pipe Lines Limited which operates the world's longest natural gas pipe line system. He was formerly vice-president and general manager, apparatus products group, Canadian Westinghouse Company Limited.

The financial man must have many other important qualities. He is expected to develop a complete and unbiased objectivity in his reporting of historical financial facts. He must also know enough about other phases of the operation such as sales, engineering, manufacturing or operations so that his judgment will be balanced when he makes financial decisions. He must keep up to date with developments and significant events in his industry and in various levels of government so that his judgment will be as broad-gauge as possible. Of course, he is expected to pursue ways and means of increasing productivity throughout his company, as well as in his own operation, by making the best use of mechanized and electronic aids for processing data and figures. He must also strive to issue his monthly reports as early in the following month as possible without overtime cost. He should constantly search for methods of getting out his reports one or two working days earlier. The sooner the reports are available, the more useful they are to the line personnel responsible for volume and profit. Relaxation of the standard of accuracy and completeness may be much better than one day's delay.

The comptroller must also keep up to date with information from his professional associations so that he will not become convinced that his own techniques and principles are the only ones. He must be flexible as business conditions are modified. As well as being prepared to learn from managers and supervisors in sales, engineering, operating, manufacturing, legal, industrial relations and purchasing departments, he must be able to "demystify" accounting and financial procedures for the managers, supervisors and foremen of these other parts of the operation. A well-planned, fundamental training course for all key company personnel is one of the best contributions he could make. A greater understanding of his problems by others in the company would certainly improve his ability to get his ideas converted to action. Remember that engineers, lawyers, manufacturing superintendents, purchasing agents and many more people in industry think they know a great deal about accounting, but unless they are educated with facts, they sometimes make some seriously wrong assumptions and proceed on a dangerously wrong tangent.

Functions of Comptroller

In my opinion, it is mandatory that the comptroller or treasurer exhibit good administration in his own department. Great confusion and misunderstanding will result when the financial man tries to make critical observations on the work of others, if his own department is vulnerable. He must make good use of his faculties of planning and control within the area for which he is directly responsible before he can expect cooperation from others. Such fundamentals as productivity of his employees, number of employees, equipment, mechanized aids and use of space are a few items that must be constantly surveyed. He must see that his department grows with the rest of the company, particularly with the sales, engineering and manufacturing or operating departments. One of the worst situations develops when the financial department grows too quickly, and this can happen very easily.

The next most important function is forecasting and planning. It should

be recognized that the financial man must be allowed to exercise his skill and company knowledge to anticipate future events. However, he must not usurp the rights of the operating people on whom the responsibility for operating results has been placed. His main contribution is to collate and coordinate the financial plans of the management team, so that a coherent and workable scheme is finally developed. He should understand that many operating line personnel need help in the preparation of their figures, and often in this process much patience is required. He should also make sure that all available statistical, historic and future economic data are used by those concerned.

One of the real values of the forecast and planning technique is the process of comparison with actual, and this presents our financial man with a wonderful opportunity for cooperation with, and education of, the other managers and supervisors in his company. During this procedure he can also learn a great deal about his company, if he sincerely indicates a desire to do so.

With reference to capital expenditure, he can be most useful by checking the validity of return on investment calculations made by line personnel or others. He can also assist in the clarification of the capital expenditure such as expansion, necessity and cost reduction. After appropriate approval, he should set up simple procedures to make sure the rate of expenditure conforms to actual physical progress. Later he should set up new operating cost budgets, which will result from the use of new equipment. At the conclusion of the project, he should calculate and report its success or failure to all concerned on the management team, and issue a comparison of actual to budgeted figures for capital expenditure, expense, return on investment and operating costs.

From capital expenditure, it is logical to think of Mr. X's activities on the movement of funds. We have to look to him for advice on the relationship between fixed assets, inventories including work in progress, cash and liabilities. Regardless of how well orders are being booked or profits being made, he would be expected to detect the danger signals showing any trend away from the balance sheet position or movement of funds as set up in the budget.

Budgetary Control

The function of budgetary control is a key part of this financial man's assignment, and whether it is a treasurer's or comptroller's responsibility depends on circumstances and personnel available. Wherever the responsibility is placed, the company will operate better and more profitably, and the management team will operate more smoothly and efficiently, if short-term forecasts are comprehensively prepared. The various department heads will have a much firmer grip on their business, and on their responsibility to the corporation, if a definite system for comparison of budget figures with actualities is created.

Again, Mr. X must not assume full responsibility for the preparation of the budget. He should consider himself just one member of the budget preparation team. If he pushes himself too far, the line operators will not approach the task of achieving the plan with any degree of confidence. I am in favour of setting targets that are difficult to meet and require ef-

fort, ingenuity and know-how, but any budget that is inspired by a comptroller, or from higher up in the organization chart, without a full measure of thought, consultation and frank discussion with all departments concerned, will surely fall to pieces by about the middle of the second quarter.

You may wonder why cost and expense reduction have not been placed ahead of these other functions. They are vital to industry and business today, but the people who create the improvement must be those that initiate the expense or cost. The financial man should look after his own area but, after that, should only provide data that will project and record the results of the efforts by others. The program will falter if he starts to comment on manufacturing methods, design, marketing methods, housekeeping standards, scheduling of materials and the many other facets of cost and expense improvement. It is essential, however, that he assist the team, and, particularly important, that he assess and report objectively on the results, whether good or bad.

Non-Financial Activities

There are many other important activities expected from this financial man. In the field of industrial relations, and particularly in labour relations, the comptroller's specialized skill and know-how can be a major contribution. His objective and calm marshalling of the dollar-and-cent facts is indispensable. Without his participation, the risks are many, and he is best suited to prepare a clear cost picture showing the effective decisions in an unclouded manner. While his contribution in assessment of the cost of labour-contract clauses will help to remove any misapprehension as to the consequences, he should operate as a member of the team and leave the policy decisions to those that are trained and equipped for such work. Business tax situations, make-or-buy policies, 3, 5 or even 10-year forecasts, and operations research are a few more areas where the monetary know-how of the comptroller has to be accepted as a valuable necessity.

Today, corporate affairs are becoming matters of great public interest and concern. Not many years ago only shareholders, bondholders and directors evinced interest in profits, prices and wage levels, assets and inventories, but more and more these figures are now being exposed to the scrutiny of the public. There are, therefore, very good reasons why the comptroller should try to improve the techniques and particularly the results of accounting for management.

Education for the Accountant in Management

R. B. Taylor, F.C.A.

ONE OF THE BRIEFS submitted to the Royal Commission on Canada's Economic Prospects expressed the belief that the limits to Canada's economic growth would be set, not by the measure of our material resources, but by the availability of educated brainpower. If that is so, industry and commerce, as the principal agencies of economic output, have as perhaps their most pressing and most constant problem, the selection and development of high talent people.

Of high talent young people, the accounting profession attracts to itself a

growing share and one of its responsibilities to society is to provide every possible opportunity for them to develop to the utmost of their capacities and to use them to the fullest advantage.

Any person who writes the letters "C.A." after his name is, presumably, well-equipped to keep records of assets and debts, to make periodic approximate measurements of the economic achievements of a business, to report properly on these matters and to respect the laws that deal with them. The focal point of his education has been to pass judgment on the adequacy of such accounting. But that is not accounting for management, although it is an essential part of general business accounting.

Nature of Management Accounting

Basically, management accounting is a way of thinking about a problem in quantitative terms. This does not mean to say that all managerial problems are reducible to measurable terms because many are not.

Management accounting has problems having to do with alternative purposes to which data can be put, and in making a choice between alternative courses of action. There are many more in the fields of differential analysis, the use of standards, forecasting, budgeting and the use of signals in controlling operations. Few of them have solutions that directly depend on double-entry bookkeeping, and education leading to competence in solving them is based more upon knowledge and skill in analytical economics, statistics and cost accounting. In none of these fields has the graduate chartered accountant received sufficient training to make him a competent management accountant.

Professor Goetz defined management accounting as "a calculus of increments and opportunities". Management makes choices, trying to select the right course of action among competing alternatives. The cost of choosing one is measured by the gain that would have been realized by choosing the other. If the accountant would properly play his part as the "figure specialist" in business, he must learn to think in these terms, and he must provide for management the facts and figures that correctly measure the alternative opportunities, both in anticipating the decisions and in appraising their propriety retrospectively.

Turning to the question of educating the accountant in management, there are many interesting and rewarding careers in business for accountants which do not encompass much managerial responsibility, and there will in the future be a much greater need for these individual contributors. But industry and commerce are very hungry for professional experts who can also manage others.

A manager is one who gets work done through others, not only because the sheer volume is just too much for him to do himself, but because it often encompasses too wide a range of skills and knowledge for him to acquire, let alone keep up with. Here is a succinct statement of the matter: "The basic requirement of an execu-

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R. B. TAYLOR, F.C.A. is vice-president and treasurer of The Steel Company of Canada Limited, Hamilton. He was admitted to the Institute of Chartered Accountants of Ontario in 1949 and was elected a Fellow in 1959.

tive (or manager) is the ability to create a harmonious whole out of what the academic world calls dissimilar disciplines. This is a fancy way of saying that an executive is good when he can make a smoothly working team out of people with the many different skills required in the operation of a modern business."

The managing accountant fits into this picture in two ways. He must be a good team member and he must be a good team captain. For both it can be said that the key developmental problem is how does the manager gain insight into the kinds of uses he makes of himself, in relation to his work responsibilities and in relation to the people with whom he works.

The road to success in management has many obstacles along the way, each of which, if approached with the right attitude and adequate capacity, can become a lesson.

Art of Delegation

If a manager, no matter what his specialty, is a manager of others because he just cannot do everything himself, he must delegate. To delegate properly is difficult. It often means accepting the judgment of subordinates, sometimes even against our own judgment, which we all feel is always better and which, surprisingly, with some frequency proves to be worse. Furthermore, if the manager is to develop his people to the utmost, which is one of his major responsibilities, he must let them, perhaps even watch them, make mistakes, while knowing that they are mistakes.

This, perhaps, first appears in delegating a specific task when alternative methods are available for performing it. Who selects the method? Unless there is some special circumstance, that is the right of the person who has been given the job to do. He may or may not ask for advice, and he may or may not accept advice. If he has the right to ask, he has the right to reject. The manager's control lies in the subordinate's accountability for results. This is an oversimplification, but it illustrates one of the tough management lessons to learn.

Another difficult aspect of the manager's job is the great variety of problems with which he must deal, some of which he will not have enough time to study thoroughly and some of which he will feel incompetent to deal with because the expert knowledge belongs to a subordinate. When his staff has the information, it becomes a a matter of either accepting their interpretation of the problem and its solution or of probing the matter with discerning questions until satisfied. Sometimes the information is just not available. Then the manager must measure the anticipated risks involved against the expected gains, make his decision and accept the consequences.

To summarize thus far, education for the accountant in management must emphasize skill in using the calculus of increments and opportunities that is management accounting, and development of the ability to work through others that is management. Before discussing some of the means whereby such skills and abilities can be developed, it is worthwhile to look first at the educational achievements of the young C.A. as he leaves his apprenticeship and settles into an accounting career in industry, for learning can only proceed from where a man is.

Let us list some of the skills and

experience that the young C.A. brings to business:

1. He has a fairly solid understanding of financial accounting, enough to take immediate charge of the conventional accounting of a small business and quite sufficient to begin to pay his way in the largest business, given good leadership.
2. He has 3 to 5 years of professional learning experience behind him and he has had a taste of the satisfaction of personal achievement.
3. Both in his course of study and in his years of apprenticeship he has learned the discipline of accuracy, and if he has been well coached, he has not become a slave to that accuracy.
4. He has been exposed to the internal workings of a variety of businesses and has learned to answer politely and clearly a variety of questions by a variety of businessmen.
5. He has learned the importance of scheduling his time and he has had the advantage, when making out his time sheets, of being confronted with both the successes and failures of his planning. He has learned to get things done.
6. He knows that there is such a thing as the cost of accounting (or at least its first cousin auditing) because he has often been told that *he* is the cost of it. In his senior years, he has perhaps had the responsibility of using a staff of juniors with varying charge rates to perform an audit within the least number of dollar-hours.
7. He has had experience in applying his education as he has acquired it. He has experienced the problem of reconciling theory and practice.
8. He has had experience in working with others and in delegating work to others, albeit in a rather simple pyramid sort of structure. Undoubtedly, he has had his first experience of learning from a subordinate.
9. He has learned the value of working according to policies wherever possible rather than by means of a succession of *ad hoc* decisions.
10. Finally, and despite what we sometimes hear, he has had an opportunity to acquire humility —in disappointing examination results, in mistakes made and corrected, and generally from his experience in the structured hierarchy that is his profession.

All of these are foundation stones on which he can build, and they are not a bad collection—better than some businessmen would have us believe. That they can be an adequate base is proved by the number of chartered accountants who have risen to senior accounting and financial positions in industry, to say nothing of those, who, in increasing numbers, have gone on to head important businesses.

How should the young chartered accountant, who aspires to be a member of business management, go about developing his talents? How should those to whom he is latent talent go about assisting him in his development? The circumstances of each can vary so greatly and are so important that any generalization is extremely hazardous. But perhaps some useful things can be said.

The primary responsibility for the

education rests with the man himself. Others can assist, if he lets them, but his own motivation and zeal constitute the *sine qua non* of his growth and development. The first year or so will be difficult as he attempts to focus on new goals and to find new motivations. During his apprenticeship years, he had a double-barreled shotgun behind him to keep him running. There was the course of study with its strict schedule of lessons and examinations to prepare for and the constant pressure of clients, partners and supervisors to keep him going during the day. It is true he has had opportunities to exercise initiative, but they have been more in how to do things than in what things to do. And that also has been true of the people who have worked for him in his senior years. Now those crutches have been taken away, and he must learn to walk without them.

Next to himself in importance will be his immediate superior, the man for whom he works. One of the latter's important functions will be to assist the young chartered accountant to make the change. A supervisor's function has much in common with that of a teacher. Indeed he is a teacher, with two important differences: the supervisor has something to say about choosing his students, but he will probably be expected to produce results in a shorter time. At any rate, no teaching agency can contribute nearly so much to the education of the would-be management accountant as the patient, understanding and wise counselling of his "boss". If there is a learning cell, this is it.

On his new job, the first thing the young chartered accountant should cultivate an interest in, next to performing his day-to-day duties, is the business in which he is engaged, its technology, economics and organization. Much of this will come to him in the course of his work, but conscious effort and an inquiring mind will pay off handsomely. To keep up with his profession and the general field of business management, there are far more sources, in the way of periodical literature, books and monographs, than he can possibly use. In fact, one of the difficult lessons to learn is what to scan, what to read, what to study, and what to file.

Only if we look beyond our own horizons and try to see the business world from the other fellow's point of view, will we do our share to make "a harmonious whole out of dissimilar disciplines". Perhaps the most persistent criticism of chartered accountants in industry is that they have difficulty in communicating with non-accountants. If accounting is "the language of business", then the accountant, and perhaps particularly the accountant in management, must be an interpreter. But an interpreter's job is not finished until the person to whom interpretation is to be made hears and understands the message. He will be more ready to try to understand us if we can show him that we are doing our utmost to understand him.

Organizing the Reporting Function

A. G. Rankin, C.A.

EVERY MAJOR business enterprise has come to appreciate and demand accurate and regular reports. This is an

important contribution of the financial group to the overall management effort. But if financial officers overemphasize the routine reports necessary for corporate purposes and for tax purposes, important as they are, they may overlook other major responsibilities as members of management. The primary objective of top management is to *motivate* the right people to take the right action at the right time. Good reporting will cause motivation at all levels of management from the foreman to the president. Unless our reporting does motivate, we are at best highly competent bookkeepers, and we have failed to understand our responsibilities as members of the management team.

What Is Reporting?

Reporting is that function which informs the proper authority as to what is going on and as to the relationship of those activities to the established goal. Fundamental to the reporting function is the existence of a financial plan against which actual performance can be measured. The best reporting system in the world will have very little significance if there is not some plan, some predetermined concept of what actual performance is expected to be.

There are three general kinds of reporting:

1. Historical reporting.
2. Reporting for management control.
3. Reporting as a basis for future planning.

All three are closely interwoven. But the emphasis in this paper will be reporting for purposes of management control. This is the area where professional accountants are weakest.

Who Is Responsible for the Reporting Function?

There are three parties who cooperate to perform the reporting function:

1. The delegater who is accountable for initiating any report; he must clarify the objectives of the report and the need for it.
2. Operating personnel, who are the "do'ers" and must supply the information.
3. The controller who must work out the technique or procedure which will let the delegater know what the "do'er" is accomplishing.

Financial communication is not a one-man job nor the sole prerogative of the comptroller. The man who gets poor communication cannot send forth effective communication. All supervisory personnel must participate in the transfer of information. Otherwise, the accounting staff become a division unto themselves. They become completely absorbed in the production of routine accounts for statement purposes and may be out of touch with changes in the manufacturing process. At the same time, the operating heads are setting up a system of "shadow" accounts of a kind and nature which they feel they require. This situation, not uncommon, is costly and is truly ineffective reporting and must be avoided.

ALEX G. RANKIN, C.A. is vice-president (finance) and secretary of British Columbia Forest Products Limited, Vancouver. Admitted to the Institute of Chartered Accountants of Ontario in 1947, he was comptroller of the University of Toronto before joining his present firm.

Common Shortcomings

The practising chartered accountant will agree that some companies are still using the same systems which they established years ago, despite expansion and growth in size and number of profit centres. As they grew, they merely expanded their monthly routine financial statements and strove for more speed and completeness. But even if the earnings statement was to be delivered the day after the month ended, it still would not suffice to meet many of the needs of the line operator.

Every effective management system is founded upon some fundamental philosophy. Such a philosophy has a fatal weakness if it does not comprehend these hypotheses: (1) change is inevitable, but (2) progress is not inevitable.

These are sobering thoughts to those in management who know that, when we cease to move forward, we shall start to slide backward. In the dynamic economic and technical atmosphere which now prevails, every company finds itself facing changes in business objectives, organizational structure, and data-processing methods. Such changes often come rapidly, and they present serious challenges to the financial data reporter.

Finding answers within the framework of an existing accounting or data-reporting system is sometimes impossible. We then ask ourselves: "How much will it cost not to know the answers?" A frequent reply can be: "If your competitor knows and you do not, your business may not last long enough to find out."

The second major shortcoming is the lack of centralized control. Some companies, while recognizing the need to collect, analyze, report and interpret financial data, have left the approach to the individual managers or divisional heads. The systems that result are disconnected and contain as many different languages and forms as there are managers demanding information. There have been many instances of this "muddling through" technique wherein the answer to every problem is to build another report. Furthermore, without a unified and controlled plan of reporting, there is an excellent chance of overlapping, conflict or significant omissions among the reports.

A third common failure is lack of clarity. One of the most disappointing aspects of present-day reporting is that, although the right information is available, it is not presented in a simple, clear, meaningful form which leaves nothing for the manager to do but to make an evaluation and take action. Either it is impossible to interpret a report correctly, or the effort required to do so is prohibitive. For some reason, most accountants, in composing reports, have not yet been able to project their thinking in terms of what management needs to plan, measure and control its operations.

Clarity is lost because there is the erroneous assumption on the part of many today that the more information management receives the better off it is. Many reports contain an indigestible amount of information in the form of too many columns and irrelevant or excessive detail. One of the most common causes of this condition is the attempt to make a report serve too many purposes. Others do not draw the distinction between that information which should appear in regularly issued reports and that

which should otherwise be held in reserve for the benefit of special analysis and study.

The distribution of many reports to persons not directly responsible for the area or function involved is a common weakness of many reporting systems. This not only distracts and wastes the time and effort of the receiver, but may encourage him to take action in areas outside his interest and jurisdiction. Such a condition was never noted for the harmony it promotes.

Organizing the Reporting Function

Whether we are organizing for the first time or revising our present system, the basic principles are much the same. The reorganization should be undertaken by a team appointed by the president. The team should include the president and one or more senior operational heads as well as the controller. This team will have at its disposal the services of several good systems accountants. There are five fundamental principles to be observed:

1. *Climate of receptivity*

   Before a start can be made the proper climate must be established. Interest in the revised reporting program must be engendered in the whole company, all the way from the top to the bottom. Everyone who may be involved should be told why changes are being made and what the benefits will be, so that he will willingly and cooperatively participate.

2. *Reporting must follow lines of authority*

   The second fundamental principle is that reporting must follow lines of authority. The starting point for reorganization begins with a close study of the organizational chart. Take a cold hard look at the company organizational structure and if the areas of responsibility and authority are clearly drawn then you are in a position to plan your reporting. One of the symptoms of an outmoded organizational structure is the existence of duplicate or overlapping areas of authority and responsibility. Such a situation often leaves unanswered the basic questions "Who reports what to whom" and "Who is responsible for what". These shadowy areas must be cleaned up before we can proceed. For example, the manufacturing function must first define its organizational structure and the scope of each manager's specific responsibilities and duties. It is very obvious that any logical measuring units adopted in our reporting system must be synchronized with the alignment of responsibility.

3. *Management must clarify its needs*

   Different levels of management need different types of data because they have different functions to perform. Generally speaking, top management needs a clear but condensed report on total revenues and expenses, profit, earnings per share, etc. To be specific, it needs data that will aid in performing the formulation of policy and long-range plans.

   First-line management, on the other hand, is more interested in immediate things or occurrences,

i.e. units produced, man-hours expended, overtime and non-productive hours, etc. In short, the first-line supervisor wants data directly related to his area of responsibility.

The intermediate manager needs data pertaining to the near future which will help him in his role of financial bilinguist, for he must talk "dollars" to his superiors and "things" to his subordinates. He must act as an interpreter, translating what the top executive has to say into language the first-line supervisor will comprehend, and also translating what the first-line supervisor has to say into language suitable to a man at the executive level.

Pyramid principle – Our reporting system must make it possible to take action at the lowest practical level of management. Let us look at the six general levels of management as a pyramid. The base support of the entire structure is the first line of supervision, the foreman. By far the greatest number of opportunities requiring managerial action occurs at the foreman's level. Management success is dependent to a very significant degree upon the authority and responsibility delegated to that level. As we proceed up the pyramid of management, through general foremen, superintendents, division managers, group executives and finally central management, there is, of course, a consolidation of reports, both in quantity and detail. Each successively higher level of management needs less detail and fewer reports.

As we ascend the pyramid, the responsibility for planning increases; as we go down the management pyramid to the foreman's level, the emphasis on planning diminishes. The control function, on the other hand, receives the greatest emphasis at the foreman's level and diminishes in emphasis as we go up the management pyramid. While top management has the primary responsibility for planning and charting the course of the business on a broad scale, it needs only a small amount of detailed report information to see that the ship is on course.

As a rule, the foreman is directly responsible for those of the major cost elements which are controllable from day to day. He influences strongly the number of men required to produce the product, the size of requisitions for materials and supplies, and the creation of other variable expenses.

4. *Operator must participate in supplying information*

The fourth principle is a simple and self-evident one, namely that the operator must participate actively and equally in devising a data-collection system. The presidential team, charged with the responsibility of revising the system, must ask each supervisor just what information is essential to his control of those areas under his responsibility. The operator must also play the major role in establishing reasonable operating standards by which to judge performance. Without this act of participation by the manufacturing function, the accounting experts alone cannot hope to formulate a data-collection and reporting system that will adequately serve the operator.

5. *Reporting should be directed at the lowest possible level compatible with authority to act*

   The practice of decentralization, with its inevitable effect of shifting the decision-making responsibility further down in the organization, makes it imperative that effective systems of control be established from the first line of supervision through successive levels to the central management level. If action in a given instance or type of situation can properly be taken by the foreman, we want him to have whatever tools or reports are necessary. If the foreman can do a task, we do not want the general foreman or plant superintendent to be burdened with it.

When the presidential team has completed its review of management needs at all levels with respect to both timing and detail, it is ready to design new reports to fit the legitimate and approved needs of management.

To complete the reorganization of the reporting function the committee must fix the responsibility for collecting and communicating the data required. These reports must be integrated into an overall structure which is related to the profit statement and balance sheet presentation. Provision should be made for written comments and explanatory information, but brevity should be the keynote.

After the reports are designed, the instructions for preparing them and the reasons for revising the system should be written. This information should be presented to top management for approval and then should be promulgated through special meetings and seminars. Before finally installing the new system, it may prove advisable to have parallel reports or a trial run for several months to work the kinks out of the new system.

When the new system is completed, it is the responsibility of the controller's department to have a complete inventory of every authorized report identified under a central code. The controller will be responsible to ensure that:

1. Reports are properly understood and are being used.
2. Reports which have outlived their usefulness are cancelled.
3. Any suggestions for improvement are considered.
4. Requests for new reports will be investigated, and, when deemed necessary, designed and installed.

Having established the goals and built a new system of reporting, there is a continuing job of analysis and interpretation. This function is usually performed by a staff of specialists divorced from the function of routine accounting. By reporting budget variances, the attention of top management can be quickly directed to those areas which are out of line and require action. Top management is thereby freed from reading massive detail. Comments on operation usually contain sufficient explanation to satisfy management on the reasons for major variances from the budget. Where further information is required, special reports are requested from the operating unit. This is known as "management by exception", and its success will depend largely on how thoroughly and in what depth the budget was reviewed at the beginning of the year.

A further technique is now possible where a well-defined financial plan

has been developed. The manager of a division can free himself of worry and detail by setting control limits and having his subordinates advise him the moment the control limits are broken, e.g. when product quality falls below a critical point or when shift production fails to meet quota and so forth. Every supervisory level of management is free to adopt protective controls by employing an intelligent system of alarms to warn when actual operating results vary from planned achievements. The management by exception and the protective control techniques have done much to sell accounting to line personnel. They bring accounting from an historical basis to a current basis by providing the user with effective controls.

Conclusion

The secret of effective reporting should be to design a system wherein the contents of the reports, their frequency and timeliness depend on the level of management reported to, and on what can be done with the information.

The effective application of the fundamental principles will reduce or eliminate common shortcomings, and will produce an efficient system that will motivate management at all levels to make more profitable decisions.

The Challenge of Mechanization

G. H. Cowperthwaite, C.A.

FOR MANY COMPANIES in Canada today, the challenge of automation is one of paramount importance. Rising clerical costs demand at least partial mechanization of the administrative function if the accountant is to provide management with the information required and if costs are to be maintained at a competitive level.

The challenge confronts the future as well as the present. The accountant has a continuous obligation to keep abreast of current advances in the field in order to ensure that his company takes full advantage of such developments, while maintaining a realistic appreciation of the pitfalls and problems that have to be faced.

The accountant's role, whether as chief administrator, financial officer, or a subordinate of one of these officers, includes:

1. Understanding the possibilities of mechanization.
2. Keeping aware of developments.
3. Evaluating and recommending courses of action to management.
4. Planning for the use of equipment.
5. Installing equipment and achieving the benefits forecast.
6. Maintaining an efficient system of mechanization.

The term *mechanization* includes any form of electronic, electrical or mechanical processing equipment that is used in the administrative function. The trend over the past 50 years has moved towards widespread use of such equipment.

History of Mechanization

Starting with the introduction of bookkeeping machines and punched card equipment in the early years of the century, there has been a series of developments, culminating in the past 10 years, in the use of such equipment by an increasing number of companies. In the main, installa-

tion has been made to reduce the amount of clerical work involved in processing paper work or to provide increased management information.

At present, the status of mechanization in the office has reached the point where new equipment is being announced almost monthly. Fresh concepts are being evolved as to what this equipment can do and how best it should be utilized. More and more companies are using such equipment as the pressure of competition necessitates that administrative overhead be kept as low as possible.

The variety of equipment presently available is wide, including electronic computers, with purchase costs of from $50,000 to $2 million, as well as punched card equipment ranging from that renting for as low as $150 per month, to the newer, faster and larger equipment utilizing electronic principles, the rental of which can go as high as several thousand dollars a month. More use is being made of integrated data processing equipment, including such items as tape producing typewriters, bookkeeping machines, teletype equipment and calculators. These are often referred to as the link between the origination of paperwork and its processing at high speed on punched card or electronic equipment. In addition, we must not omit equipment in the bookkeeping machine, "one-write" field, etc., all of which may be classed to some extent as equipment used in office automation. Confronted with this array, the accountant must take care not to be mesmerized by both the range of equipment available or the claims made by its manufacturers.

Role of Professional Adviser

One of the problems for the accountant in industry is that of keeping informed of developments in the field. Magazine articles, literature released by equipment companies, and shows sponsored by associations and association meetings can be valuable. The accountant should bear in mind, however, that a little learning is a dangerous thing. Before a major decision is reached concerning mechanization, serious consideration should be given to consulting a professional adviser, especially now that firms of chartered accountants are forming specialist groups to keep abreast of advances in office equipment. As a general rule, unless a company is very large, it is well advised not to experiment with new equipment as even the companies who manufacture equipment are faced with substantial field tests within industry before they eliminate all defects in the first production line models. The smaller companies can make use of the machines once they have been proved by adequate tests in the field.

What advantages can be gained from partial or complete mechanization? The more significant include decreased operating costs, greater availability of management information, capacity to expand clerical work processing at lower dollar cost and greater accuracy and speedier processing.

These advantages can be significant

G. H. COWPERTHWAITE, C.A., a frequent contributor to *The Canadian Chartered Accountant*, is a partner of Peat, Marwick, Mitchell & Company, Toronto and is in charge of that firm's Canadian management controls department. He is a member of both the Institute of Chartered Accountants in England and Wales and of the Ontario Institute.

but, at the same time, we must consider the problems that can also arise from the use of such equipment. The major ones are: inadequate appreciation of the degree of planning or the amount of change necessary when mechanization is contemplated, insufficient flexibility as a result of the advances from manual to machine systems, continued necessity for rigid adherence to standard procedures if schedules are not to be upset, and higher calibre of personnel required to manage machines.

Accountant's Task

Assuming that the above are understood, how can the accountant prepare his recommendations for mechanization to management, or how can he be of service to management in this area?

The first step is the survey or the evaluation of present procedures. This is a vital step that should be made with the knowledge that a great majority of the mechanized installations in Canada today fall short of producing the benefits anticipated. Many people feel that this high percentage of failures is directly related to the inadequacy of the preliminary survey. Accountants probably feel that they know all details of their present systems, yet it is important to realize that it is the exceptions which present the problems. Frequently, these are overlooked unless a detailed review is made. When all the facts have been obtained, the system should be carefully reviewed to determine where work duplication or inefficiency exists. Either of these problems is inherent in nearly every system, and their correction can often produce benefits far beyond those that might result from the use of more complex equipment. This is frequently the case in companies contemplating the use of electronic equipment.

Following this step, the proposed system should be worked out in block diagram form with particular reference to weaknesses that appear to exist in it, assuming that more advanced equipment is to be used. The next step is to assess costs on a realistic basis. Particular care must be exercised to take into account the hidden costs so frequently overlooked in the planning stage, such as freight on equipment, space renovation, salaries, and rentals of equipment during run-in periods. These costs, however, can be substantial and, if not taken into account at the outset, can result in heavy expenditures that were not expected by management. In addition, the possible benefits in terms of costs and other intangibles should be taken into account. These include staff who will become redundant under the new system. Here again, a realistic approach is essential if the day of reckoning is not to be painful to all concerned.

Following the above steps, the accountant should present a balanced report to management. The report is essential and should carefully weigh the results of the study with specific reference to benefits anticipated and the costs that must be incurred. Above all, to be effective, systems of mechanization must be custom-made and not just adaptations of methods that have been used by other organizations.

Planning for Use

Once a decision is made to proceed with a system of mechanization, how should the accountant plan for the use of the equipment? Planning

is vital, and the importance of the preparatory period, which may be years for electronic data processing or months for other types, must not be underestimated. It is most important that responsibility for installation planning be assigned to an official in the organization with adequate time to spend on this work. A master plan must be developed which takes into account each step that has to be undertaken before the equipment is installed. Staff should be carefully selected. The problem has to be faced as to whether experienced staff should be hired from outside or whether staff should be trained internally. Both methods are satisfactory, but many companies find that, by utilizing available equipment companies' courses, existing staff can be satisfactorily trained for most jobs that have to be filled when an advanced system of mechanization is contemplated. Moreover, aptitude tests that have been developed for a wide range of companies can also be used to good effect to see whether staff who are currently engaged in one capacity can be transferred effectively to a new position. Procedure development is a vital stage of planning. Systems to be used must be worked out in detail, using as a base the block diagrams that were developed during the survey phase.

Finally, when the equipment has been delivered, trial runs must be carried out to test all phases of the systems as well as the equipment. It is difficult to run two systems in parallel and careful planning of the trial-run period can reduce the inevitable changeover problems.

Indoctrination of management and line personnel is part of the changeover work that is sometimes overlooked. All executives, from the president down, should take some interest in the new system as the greater the knowledge, concerning the equipment in the organization, the better.

Early Problems

Once the equipment for the new system has been installed, the question arises as to how to deal with the problems and crises that arise during the early days. It is here that management backing and support are important. If management is sufficiently aware of the planning that is taking place, it will have confidence that problems such as delays in preparation of reports and submission of statements to customers can be overcome. It is up to the accountant to stress to management that in any major changeover, problems are inevitable and have to be faced. Planning is the answer, together with the confidence that can be won by teamwork and preparation.

What assistance is available to the accountant in industry during this changeover period? Many accountants fail to realize the degree of aid that can be expected from the equipment companies. Provision for this is included in either the rental price or the purchase cost and should be demanded at the time negotiations are being carried out. Equipment companies can be particularly valuable in developing detailed procedures, training staff and in other matters as well. It is unwise, however, to leave the entire system development to equipment companies, as they often take the line of least resistance, and tend to install a system that parallels one they have seen operating in another company. Assistance from the equipment company should be settled in advance and some estimate given of

the number of hours of assistance that can be expected. Another valuable source of assistance during this changeover period is the professional adviser. On his staff there are men who have substantial installation experience. While consulting assistance might seem a luxury at this stage, many companies have found that the fees involved are more than recovered in a short period of time through a smoother changeover, fewer costly system design errors, lower costs, and the fulfilment of forecast benefits sooner than would otherwise have been possible.

It is vital for the accountant to know *where* cost reductions are to come from and to *plan* for their realization. This involves specifying, by the executive responsible for installation, the individuals who will be redundant and indicating when they will no longer be required or when their duties will be substantially changed as a result of the new system. The task of achieving cost reduction should be assigned, usually to line supervisors, who must be instructed in the new system if they are to accept this responsibility and must have confidence in its ability.

Maintenance and Control

Assuming that all stages of installation have been carried out satisfactorily, let us now examine briefly the maintenance and control of the established mechanization system. It is important to realize that such a system is usually at peak efficiency a few months after it has been installed. Thereafter, changing circumstances, increased volumes and other factors tend to lower efficiency over a period of years. Many organizations feel that the system should be carefully reviewed once every 3 years if clerical costs are to be kept within a reasonable figure.

The use of machine-scheduling techniques is a useful method of controlling the system. Machine schedules record time spent, as compared with that scheduled. They should be reviewed monthly by a responsible member of management to achieve maximum value from the equipment and assure the ordering of further machines when necessary. This is important in view of the substantial lead time required by equipment companies for delivery.

Job evaluation and staff training are other useful tools in maintaining an efficient system. Job evaluation ensures that the content of each job necessitated by the system is clearly defined and thoroughly understood by all concerned. This assists in staff training and prevents the development of small groups of personnel who, because of their technical knowledge, are regarded as the key people and thus are in a position to hold the company to ransom. A periodic review should be made of procedures as some companies find, when a new system is installed, that after a period of time certain jobs should be taken off the new system in order to make room for others. This is usually preferable to being forced into making a second shift operation or purchasing further equipment merely because of the company's desire to mechanize as much as possible. Mechanizing the payroll is a favorite starting point because of the ease with which it can be converted. Many companies find that after this and other straight-forward applications have been converted, the cost advantage of mechanizing such appli-

cations is marginal and that the machine time used by such applications could have been more profitably spent, for example, in the field of production control and machine scheduling.

Above all, over-mechanization should be avoided. Many companies have reached the stage where too many clerical functions have been mechanized. Once more, the rule of commonsense applies. In a marginal case, it is better to carry out the work by other methods. On the other hand, if an operation can be performed more efficiently, economically and speedily by mechanized methods, then the system should be mechanized.

Future Outlook

Looking into the future, it seems likely that a far greater use of mechanization will be made, not only by the larger and medium-sized firms, but also by those which are relatively small. The competitive "edge" will be responsible to a great extent for this increase in mechanization. Many companies will find that their competitors are producing management reports or statements for customers more quickly and more efficiently. Management, therefore, will bring pressure to bear on the accountant to create new systems and methods, with the result that more use will be made of mechanization. At the same time, many companies will find themselves faced with serious problems because of inadequate planning and the false presumption that delivery of the machines would solve their administrative problems. The accountant's role is tied in with "accounting for management" through this whole field of mechanization. While mechanization is not the only tool, it is one that requires thought and consideration. The accountant who does not weigh carefully the importance of mechanization, while realizing the degree of planning necessary for its implementation, will fail in his duty and will not qualify for a management role in his company.

Income Tax Abolished in Russia

The latest Russian budget includes a proposal for abolition of the income tax. In the Soviet Union income tax now provides little more than 7% of the State's revenue. The *Guardian* comments: "The main source of tax revenue comes from the turnover tax imposed on goods as they leave the factory. While the abolition of income tax will therefore favour the higher-income groups, whose salaries are to be reduced under the wage and salary reform now in progress, it will make little difference to the ordinary run of people."

— *Taxes*, November 1959

Edited by W. BARRY COUTTS, C.A.

Accounting Research

This month's department is devoted to clearing up an accumulation of matters relating to earlier articles on which further clarification or discussion seems desirable.

Auditor's Responsibility for Inventories

The recommendations of the Committee on Accounting and Auditing Research of the Canadian Institute regarding the auditor's responsibility for the validity of the inventory figure were set out in Bulletin No. 16 issued in May, 1959. In this bulletin it was recommended by the committe that, "in addition to the audit procedures set out in paragraph 5 [review of methods, testing of count sheets, prices and clerical accuracy], attendance by the auditor at the stocktaking, whether this is at the year-end or at other times, should be regarded as standard auditing practice where stock-in-trade is a significant item in the financial position, unless such attendance is not practical in the circumstances". It was also provided that if the auditor had not attended the stocktaking, he should substitute alternative procedures and, if unable to satisfy himself by one means or the other, he should qualify his report.

This proposal, which for many practitioners will involve a complete change in normal audit methods in relation to inventory, has naturally led to considerable speculation as to what is actually involved in the new procedures. Since the profession in the United States has had 20 years experience with somewhat similar requirements, a review of their statements on the subject will be of interest to Canadian accountants facing the problem for the first time.

It is, of course, impossible to summarize or review all of the writing that has been published on this subject over the years. However, the summary of the requirements set out in the pamphlet "Codification of Statements on Auditing Procedure" issued by the American Institute Committee on Auditing Procedure in 1951 can be considered, because of its source and clarity, as a useful introduction to the subject. More detailed discussions on the procedures and principles involved can be found in most American text books on auditing. There are also a number of "case studies" included in the pamphlet on codification which discusses the procedures to be followed in some unusual situations.

The following extended quotation from the pamphlet referred to contains the essence of the American requirements on this subject. It should not, of course, be considered as a substitute for the discussion set out in Bulletin No. 16, but rather as a guide to principles and practices which have been found to be desirable in the United States.

"Where the independent certified public accountant intends to report over his signature on financial state-

ments in which inventories are a material factor, in addition to making auditing tests and checks of the inventory accounts and records, he shall, wherever practicable and reasonable, be present, either in person or by his representatives, at the inventory-taking and by suitable observation and inquiry satisfy himself as to the effectiveness of the methods of inventory-taking and as to the measure of reliance which may be placed upon the client's representations as to inventories and upon the records thereof. In so doing he may require physical tests of inventories to be made under his observation.

"Where the inventory is determined solely by means of a physical inventory at the end of the accounting period (or at a date before or after but reasonably close to that date, with adequate records supporting the changes during the intervening period), it is ordinarily necessary for the foregoing procedures to be followed at that time.

"Where well-kept and controlled perpetual inventory records are maintained, supported by (1) a complete physical inventory at a date not coincident with the balance-sheet date, or (2) physical inventories of individual items taken from time to time so that the quantity of each item on hand is compared with the related inventory record at least once in each year, it is satisfactory to undertake the procedures outlined at any interim date or dates selected by the independent auditor, his purpose being to satisfy himself as to the credibility of the perpetual inventory records and the reliance that may be placed on them in supporting the inventory totals as shown in the balance-sheet.

"In the case of inventories which in the ordinary course of business are in the hands of public warehouses or other outside custodians, direct confirmation in writing from the custodians is acceptable provided that where the amount involved represents a significant proportion of the current assets or of the total assets, supplemental inquiries are made to satisfy the independent auditor as to the bona fides of the situation.

"The independent auditor does not 'take', 'determine', or 'supervise' the inventory. These operations are undertaken by management, antecedent to its primary representations concerning quantity, condition and value. He observes and tests these procedures in his capacity as independent auditor, but he does not, and should not in his ordinary capacity as an independent auditor, make the original determination. He gives consideration to the effectiveness of the internal control as applied not only to the book records but also to the procedure of taking physical inventories. His functions do not include those of a general appraiser, valuer, or expert in materials."

There does not seem to be anything in the above description of the standard American procedure which is inconsistent with the recommendations of the Canadian committee. The somewhat more specific instructions laid down for the guidance of American practitioners have, of course, no authority or relevance in Canada. As a guide to what experience has shown to be useful procedures, however, they should be of considerable assistance to Canadian accountants unfamiliar with the problems involved in attending at physical stocktaking. A review of these rules

and of other descriptions of the accepted American procedures will thus provide a very useful introduction to the subject for those facing it for the first time. The emphasis on the auditor's function as a reviewer and observer only and the insistence that he does not take or supervise the inventory himself should also help to dissolve some of the opposition to the recommended change of procedure, much of which seems to be based on the fear that the adoption of the procedure will involve the auditor in stock-taking and valuing procedures for which he is not qualified.

* * * *

Independence in the United States

Mr. Andrew Barr, chief accountant of the Securities and Exchange Commission in Washington, has written to point out that the summary of the Commission's views on independence in Accounting Research for June 1959 imputes to the Commission a more strict interpretation of the meaning of independence than is actually warranted. In the article referred to, it was stated that, although the Commission had issued no official pronouncements regarding the effect of management consulting activities on an accountant's independence, it was understood that an accountant who offered such services might be held to have lost his independence with respect to that client. Mr. Barr advises that this is not necessarily the case, and that as long as the accountant restricts himself to offering advice to management his independence will not be impaired. It is apparent only in cases where the accountant gets too involved in the client's affairs that problems have arisen. Independence is not considered to be impaired as long as the accountant takes care to maintain a clear distinction between the "giving of advice to management and the making of decisions for management".

Mr. Barr also questioned the statement made in the earlier article to the effect that "activity in fields related to the client's business has been held to destroy independence with regard to any company in that business". He points out that there is only one issued decision of the Commission relating to such a situation and that the grounds for holding that there was a loss of independence in that case were related to the nature of the employment rather than the mere fact of employment.

The case in question, described in example 52 in the Commission's Accounting Series Release No. 81, involved an accountant who had been offered employment as a securities salesman. He was advised that this would be considered to be an occupation "incompatible with the profession of public accounting" and that the acceptance of such employment would, therefore, result in the loss of his independence with respect to his other clients regardless of the nature of their business. The conclusion drawn from this case in the earlier article thus seems to be rather broader than the facts would warrant.

Canadian practitioners who have on the whole been rather concerned about the stringency with which the S.E.C. applies its independence rules will be glad to learn that, in one field at least, the actual practice is less stringent than it is often understood to be and that the offering of consulting services does not necessarily disqualify an auditor.

Independence in Ontario

In the earlier article on independence it was suggested that while the recognition of "independence" as a characteristic of Canadian accountants would not involve any change in existing practice in most cases, the use of this convenient term might have some advantages. It was suggested, for example, that the recognition of the need for independence could help to clarify the public's thinking regarding the relationships of auditors to their clients. It was also suggested that it might even be helpful to practitioners themselves in some difficult situations where unusual relationships have developed that are not specifically covered by the traditional rules.

In the light of these remarks it is interesting to find that the committee which for some years has been redrafting the Ontario Rules of Professional Conduct has apparently reached a similar conclusion and has introduced the concept of "independence" into the new rules. These rules were approved by the members of the Ontario Institute at its annual meeting last June.

The main reference to "independence" appears in rule 3 which is the first rule dealing with general conduct of members. In its new form this rule prescribes the general attitude of the members under three headings. Part (a) requires members when acting as auditors to "maintain independence"; part (b) requires them to "subordinate personal interests to those of the public, the client, or the Institute and profession, as the nature of the case may require"; and part (c) requires the maintenance of professional standards of competence, moral character and conduct. It seems to have been recognized, in other words, that the concept of independence, or freedom from outside influence, is a desirable requirement in an auditor and that there may be circumstances where the subordination of personal interest or the maintenance of standards of competence and integrity may not be enough.

No attempt is made in the new rules to provide a specific definition of independence. It can therefore be assumed that the word is to be taken in its usual sense of "freedom from external control or rule". That this is the intention is confirmed to some extent by the way in which the term is used again in rule 8. This rule requires the disclosure by an auditor of any "direct or indirect *financial* interest (or such other interest as would materially influence the *independence* of the member or firm)". (Italics added)

It will be interesting to see how this word is interpreted in practice and whether the concept of independence will help members of the profession to maintain proper professional standards.

• • •

Allocation of Income Taxes in U.S.

The issue of the revised Accounting Research Bulletin No. 44 by the American Institute of Certified Public Accountants produced problems for some regulated public utilities in the United States similar to those facing the utilities regulated by the Board of Transport Commissioners in Canada. (See Accounting Research, July 1958; April and July 1959). The attempt to resolve the conflict of opinion between regulating authorities and accounting authorities, however,

led in some cases to the development of a quite different solution. This involved the adoption of the recommended accounting procedure as far as the profit and loss statement was concerned but the classification on the balance sheet of the deferred credit as part of the shareholders' equity under some such title as "earned surplus restricted for future federal income taxes". The procedure thus represented an interesting attempt to get the best of both worlds — to postpone the recognition of the tax saving in the accounts while at the same time reflecting it immediately in earned surplus.

In due course the American Institute and the Securities and Exchange Cimmission found it necessary to make some pronouncement on the subject. Early in April 1959 the Institute Committee on Accounting Procedures prepared to issue a letter to members clarifying the meaning of the revised Bulletin No. 44. This letter stated that the phrase "a deferred tax account" used by the committee in the bulletin to describe the account to be credited with the deferred income tax was intended "in its ordinary connotation of an account to be shown in the balance sheet as a liability or a deferred credit". The committee then went on to point out that the alternative treatment could not be considered acceptable since "a provision in recognition of the deferral of income taxes, being required for the proper determination of net income, should not at the same time result in a credit to earned surplus or to any other account included in the stockholders' equity section of the balance sheet".

As a result of actions in the courts by several of the affected utilities in an attempt to forestall this authoritative criticism of their accounting procedures, the issue of the letter was delayed by injunction for some months. The courts finally held, however, that there were no legal grounds on which the Institute could be restrained from expressing its considered opinion and the letter was issued during July and published in the *Journal of Accountancy*, August 1959.

The interest of this letter for Canadian readers is mainly in the additional emphasis it places on the general acceptance in the United States of the deferred tax treatment and the indication that the amount of the income tax saving carried forward to future years is somewhat in the nature of a deferred credit.

It is interesting to note in this same connection that the proposed release of the Securities and Exchange Commission on this same subject referred to in Accounting Research, April 1959 has been delayed for somewhat similar reasons and has not yet been officially issued.

Edited by GEOFFREY H. WARD, C.A.

Practitioners Forum

More on Relations with Bank Managers

In this column in November 1959, the nature of a survey made of bank managers was outlined. The replies to seven questions were reported and discussed. In this month's column the replies to three more general questions will be covered.

Question No. 8

"What specific items of information that you require are commonly missing from financial reports supplied by auditors?"

Question No. 9

"What specific items of information that you generally require are missing from the attached specimen financial statements?"

Attached to the questionnaire was a set of statements that seemed to be very complete. However, there were a few items considered lacking by the bank managers. Since the purpose of the survey was not to determine the merits of the specimen statement, the responses to questions 8 and 9 have been combined.

List of Missing Items

The 9 items most frequently mentioned were:

Aged analysis of receivables	25
Cost and accumulated depreciation of fixed assets	19
Statement of source and application of funds	11
Fire insurance coverage	11
Additions and disposals of fixed assets	8
Breakdown of inventories	7
Aged analysis of payables (if not current)	7
List of large receivables	6
Statement of working capital	4

Seven items were mentioned three times:

Auditor's letter to the board not given to the banker
Bank reconciliation or the total outstanding cheques
Basis of valuation of inventories
Schedule of capital expenditures and capital cost allowances
A list of the large accounts payable
Current payments due on notes or mortgages
Indirect or contingent liabilities

Eight items were mentioned twice:

Reconciliation of depreciation reserves
Accounts payable past due
Due dates of liabilities and repayments
Current portions due on long-term liabilities
Amount of stock held by principal stockholders
Changes in earned surplus
Breakdown of manufacturing costs
Comparison with former years operations.

Among the items mentioned at least once were:

Major changes in assets and liabilities
Comments on verification of receivables
List of overdue receivables
Comments on physical check of inventory
Planned capital expenditures
Security for bank loans
Breakdown of accrued liabilities
Data re income tax assessments
Client's income tax position
List of shareholders

Amount of drawings
Comments on changes in profit and loss
Percentages of profit and loss items to sales
Statement of cost of goods sold
Life insurance on officers
Number of employees

The replies to questions 8 and 9 referred to the following main areas:

Receivables	33
Fixed assets and depreciation	33
Funds and working capital	15
Payables	13
Other liabilities	13
Insurance	12
Inventories	11
Miscellaneous	8
Profit and loss	7
Equities	6
	151

This list of those areas where our reporting is considered incomplete is no doubt indicative of the items of most concern to bankers.

Question No. 10

"What other general suggestions, criticisms or observations, regarding chartered accountants' relations with bank managers, occur to you?" Naturally the replies to this question covered a wide range. In order to comment on them conveniently they were arbitrarily classified into 4 groups:

No comment	15
Favourable	11
General	15
Critical	13
	54

Favourable

Comments expressing approval included the following, "I have no criticisms regarding chartered accountants' relations with bank managers, as I have always found them to be very cooperative." Some were more specific, for example, "It has been our experience that active participation by the auditor in discussions of a client's affairs with his banker can be extremely helpful to all concerned." "It is our feeling that bankers generally insist upon their borrowing customers availing themselves of the services of a qualified, reputable, chartered accountant and this bespeaks the high esteem in which that profession is held by bankers." Another commented on the specimen statements included with the questionnaire: "The specimen report to the board of directors and the shareholders is most comprehensive, and we think would leave little to be desired by the parties receiving them. They would certainly be of great assistance to a bank manager submitting a credit application."

General

Some of the comments were a duplication of those asked for by questions 8 and 9. There were many suggestions of a general nature. Reference to a free exchange of information was made by several bankers: "It is an advantage if the banker can call the auditor at any time and get data directly from him regarding clients with loans." Of course, the client's approval would have to be obtained before the auditor and banker could deal directly with each other. Also mentioned were the benefits to banker, customer and auditor of meeting together to discuss the annual statements when the annual bank credit is arranged. Some suggested that accountants and bankers meet in groups to attempt to get more uniformity in statements.

Other matters commented on included the common desire to help clients by offering financial advice. "The auditor's first responsibility is to the client and not to the bank;. he

must stay within his professional limitations when trying to assist his client and when discussing his client's affairs." Another suggested that relations would perhaps be on sounder ground if our code of ethics were made public or at least made available to those interested.

One banker commented: "The biggest problem is getting small businesses to obtain reliable auditors. The small businessman looks at the cost of auditing and is too prone to take the cheapest. If only he could be made to realize that by spending a little more money with a good auditor he could save money in the long run and possibly avoid trouble later on." Another banker suggested that where the client was reluctant to pay for a complete audit and report, the banker should be contacted to ascertain more exactly what information he would require. This would avoid the preparation of information not required by the management or the banker.

Several managers mentioned the importance of the auditor commenting on undesirable features respecting operations and accounting procedures. The bankers are interested in the auditor's opinion as to why companies are operating at a loss or producing a lower than average profit. They also like to know what has been done to overcome these problems. Too many auditors confine themselves solely to completing the audit and reporting on the results, without getting into the reasons why they are unfavourable or suggesting how they could be improved. One manager considers it important for the auditor to attend at stock-taking, and to take an interest in the procedures followed to establish selling prices.

Some of the briefer suggestions were: "The size of the paper used for statements should fit a standard letter-size filing cabinet"; "Changes in trading policy should be reported"; "Any important transfer of shares should be reported".

One stated that several chartered accountants had called on him with a view to obtaining business. He pointed out that this could be a two-way street and that he would recommend an auditor whose work he had seen and was impressed with favourably.

Critical

Perhaps it is appropriate to deal with criticisms last. There was one comment on each of the following points: statements should conform to a general pattern; contact during the year is of value; fixed assets should not be shown net; the amount of depreciation deducted should be stated; monthly totals of lists of receivables submitted by customers often do not agree with the amounts on the balance sheet; the disclaimer "prepared from the records without audit" was disapproved of; there was objection to the auditor's report being signed with the name of the firm and not an individual; stamped envelopes should be enclosed with requests for information; "prepaid expenses" and "supplies" should not be treated as current assets; there was delay in preparation of statements. A suggestion was made that two copies of statements be provided so that one could be sent to head office. Some of these criticisms indicate a failure on our part to explain the underlying reasons for our actions.

Several managers mentioned the need for discussing detrimental fea-

tures observed in a customer's affairs and making recommendations regarding their correction. Some commented on the lack of any letter to the board. This left the banker to obtain reasons for all changes in the accounts from the customer, who often was not aware of how the auditor had arrived at the figures in the statement. One said that he felt that sometimes chartered accountants handled the customer's affairs too much and left the principals out of the picture.

A few felt that the emphasis which auditors placed on income tax savings was sometimes to the detriment of a customer's credit rating and proper statement presentation. One banker knew of a recent case where a $7,000 reduction in profits was made for tax purposes by revising a previously audited statement. He stated that while this may have been justified, he found it difficult to reconcile.

Sometimes the auditor advises his client on the amount of credit he should get without knowing all the facts or considering whether the money is needed. This can cause discord between client and banker. In marginal cases where the bank manager is trying to impress upon his customer the importance of having adequate working capital, sometimes the accountant sides with the client and thereby gives him the impression that the bank manager does not know his business. This delays the client getting his affairs on a sound basis. One manager objected to auditors who try aggressively to sell him. He prefers auditors who confine themselves to providing information.

Conclusion

When recommending auditors to customers, bankers would naturally be influenced by the adequacy of the reports and statements prepared for other clients.

Obviously bankers and accountants have a great deal in common, and bankers are very interested in our activities. Generally our relationship seems to be satisfactory. However, as in most personal relationships, there is room for improvement and a continuing need for maintaining old contacts and developing new ones.

The editor of this department would like to thank the 54 bank managers who completed the questionnaires. Their cooperation made this report possible. He is also indebted to bankers R. E. Saunders, F.C.A. and W. Ormrod who reviewed the drafts of these two columns.

BY PETER C. BRIANT, M.B.A., C.A.

Current Reading

MAGAZINE ARTICLES

FINANCE

"SHOULD YOU SET UP A FINANCE SUBSIDIARY?" by Allen H. Seed. *The Controller,* November 1959, p. 501 et seq.

Tight money and changes in consumer attitudes and marketing techniques have caused several leading companies to set up captive finance subsidiaries in recent years. Their importance in the corporate picture, according to the author of this article, merits their consideration by financial executives.

In his article, Mr. Seed covers the steps which often lead up to the establishment of a finance subsidiary. Alternative courses of action, economic characteristics, possible applications and pitfalls of the device are also discussed.

Ways in which a captive finance subsidiary can be used to take advantage of the leverage in its financial structure are discussed by the author under the following headings:

1. As a source of capital for longer-term receivables.
2. As a source of retail financing.
3. As a means of financing products leased to others.
4. As a means of acquiring and leasing back capital equipment.
5. As a device to place receivables under tighter control.
6. As a source of added income to the parent company.
7. As a profitable operation in its own right.

Companies able to generate average loans outstanding in excess of $1 million a year can benefit from captive finance subsidiaries, concludes the author.

FOREIGN OPERATIONS

"THE FINANCIAL EXECUTIVE'S ROLE IN PLANNING AND ORGANIZING FOREIGN OPERATIONS" by Charles Moller. *Cost and Management,* November 1959, pp. 391-394.

"IS THIS THE TIME TO GO INTO FOREIGN OPERATIONS?" by Martin M. Reed. *The Management Review,* November 1959, pp. 12-19.

Expanding into foreign operations requires a consideration of many factors before the final decision is made. Charles Moller, a management consultant, suggests that marketing and monetary restrictions, methods of operation, taxation and personnel problems in the foreign country are important aspects to be considered. Investigation into these areas may best be done, he states, by outside consultants familiar with the country selected.

Martin M. Reed, who is president of a company engaged in international operations, lists 17 factors to be considered in deciding whether to locate overseas:

1. The extent of the market for

your products in the country and the area involved.

2. The probable effect of the various economic communities, present and prospective, upon the local operations.
3. The tariff structure of the country.
4. Financing available locally, and the size of operation contemplated.
5. Taxes in the country.
6. Soundness of local currency, and ability to remit profits and repatriate capital.
7. Availability of required facilities at proper prices.
8. Wage structure of the country and the danger of inflation.
9. Availability of required material and labour, executive and technical personnel, conveniences and facilities, and the degree of possible labour or political problems.
10. Degree of nationalism and chauvinism.
11. Special concessions, if any, to new foreign and domestic enterprises.
12. Business climate generally, and ease of doing business.
13. Soundness of the government and relative freedom from anti-business groups.
14. Extent to which foreign ownership and control are permitted.
15. Reputation of the country's products abroad.
16. Possibility of the country closing its borders to your products if a competitor first sets up a source of supply for competing products in that country.
17. Whether or not you will be shipping your products back to your own country from your subsidiary abroad.

LAW

"ACCOUNTANTS' LEGAL LIABILITY" by Thomas W. Hill, Jr. *The New York Certified Public Accountant*, October 1959, pp. 707-723.

The first part of this article, which was published in the March 1959 issue of *The New York C.P.A.*, analyzed the broad basic principles of accountants' legal liability. This concluding instalment makes detailed reference to decided cases in clarifying the applicable legal doctrines. Some of the major topics treated at length are liability for failure to discover defalcations, the extent to which professional literature has clarified the accountant's responsibility for detection of defalcations, required auditing procedures referred to in court cases, and measure of recoverable damages.

Of particular interest to readers will be Mr. Hill's discussion of two cases decided in the United States since 1954 which bear on the liability of the accountant to his client. He concludes from his review of these and prior decisions that the public accountant's legal liability is not yet subject to precise delineation. The only conclusion possible at this stage of the development of theories of liability is, he writes, that a public accountant exposes himself, and his professional reputation, to injury where he fails to recognize and observe the generally accepted standards of performance established by the profession.

MANAGEMENT

"ADVICE FOR SMALL COMPANY PRESIDENTS" by Louis E. Newman. *Har-*

vard Business Review, November-December, 1959, pp. 69-76.

In this article, the president of a medium-sized manufacturing company records the successful use of an advisory board of directors. It has resulted, he says, in his receiving competent professional advice from men free to criticize his actions, without fear of retaliation. Its members, four in number, are retired businessmen skilled in finance, manufacturing, marketing and plant management.

The author estimates that the entire cost for the advisory board service in its first year will be less than $12,000. The board's achievements have, in his opinion, handsomely repaid this investment.

For others interested in the plan, Mr. Newman lists five factors which, he asserts, must be present for the plan to be feasible:

1. The advisors must be competent and have the respect of the president and the other board members.
2. The advisors must be fully informed about the problems on which they advise.
3. The advisors must be autonomous.
4. The president must seek their advice and be receptive to it.
5. The meetings must be held in private to encourage a free interchange of criticism without causing the president public embarrassment.

The absence of any one of these factors, according to the author, would completely nullify the value of the advisory board as an aid to the president.

"ORGANIZATION FOR EFFECTIVE PLANNING AND CONTROL" by Ralph Davies. *Cost and Management,* September, 1959, pp. 312-315.

In this short article, Mr. Davies, a management consultant, emphasizes the point that sound business management is dependent on the effective planning and control of business operations, and that these managerial functions must be based on a well-designed organization structure.

There is no standard form of organization chart which may be applied to any enterprise, he states, since businesses as well as people are markedly unlike in many respects.

The article includes two charts, one showing the organization structure for a company operating in one centre or as one unit, and the other for a company which has many producing branches. Both charts are so constructed that lines of authority and responsibility are clearly defined.

Mr. Davies goes on to point out that while the organization chart normally shows lines of authority, it does not contain a clear statement of the various job responsibilities. Delegation of authority equal to the responsibility undertaken must be an accepted principle. The chart must, therefore, be supported by adequate job descriptions. It then becomes necessary to find people who will fit such job descriptions, and this entails work studies.

SYSTEMS

"HUMAN RELATIONS IN SYSTEM CHANGES," by Abner W. Boyd. *N.A.A. Bulletin,* July 1959, pp. 69-71.

Though admitting there may be no specific rules for dealing with human relations problems when changing existing systems and procedures, Mr. Boyd, an insurance executive, suggests

that such changes will only work out if they are acceptable to those who are to operate under them.

He suggests that this acceptance may be gained if the proposed changes are fully supported by management from the top to the lower levels, and are clearly explained to and freely discussed by all personnel affected. Staff members should be invited to participate in the scheme proposed and thus made to feel they are contributing something to it. Discretion should be exercised in criticizing the old scheme, especially in the presence of those who may have had some part in its design and operation. A study of the idiosyncrasies of those to whom the proposal is made is also useful.

Mr. Boyd ends on the note that, traditionally, humans are resistant to changes imposed on them, and it is important to obtain their cooperation by psychological means.

"O.R. AND THE ACCOUNTANT," by Kenneth S. Most. *Accountancy*, September 1959, pp. 460-463.

The main message in this article is that not only has the accountant an important role to play in assisting an operational research team to work effectively, but also that certain important accounting problems may be solved with the aid of such a team.

Mr. Most points out that the accountant can make a major contribution to the development of operations research as a technique of scientific management by supplying useful data involving a number of variables.

Among the problems suitable for operational research, he says, are the variables involved in price-volume relationships, product-mix, level of inventories, plant maintenance, operating levels and methods of distribution. He points out that these matters may also be reflected by break-even charts which, of course, are valuable mainly in their relation to flexible budgeting. The break-even chart technique cannot, however, help in deciding which courses of action are to be considered in arriving at a decision.

The chief accounting executive, writes Mr. Most, is a likely person to decide which problems are suitable for operational research techniques, since he is the one vitally concerned with the two variables, costs and revenues. The accountant must carefully select the figures to be used in the investigation so that abnormal elements will not distort the results.

The author concludes by stating that the potentiality of operations research places a responsibility on the accounting profession to improve its techniques and rationalize its theory. Accounting methodology, he says, must be standardized so that the relations between the various accounts can be drawn graphically and reduced to a system of linear equations. According to Mr. Most, this technique points the way to great strides forward in the near future, which could transform the basis of the accounting profession as we know it today.

BOOK REVIEW

"Corporate Records Retention": The Controllers Institute of America, New York; Vol. 1, (A Guide to U.S. Federal Requirements) 242 pages, $10; Vol. 2, (A Guide to Canadian and Provincial Requirements) 276 pages, $10.

These two volumes, which are to be followed by a third concerning re-

quirements of state governments in the United States, represent an excellent first reference to the full statement of laws and regulations regarding retention of business records.

Volume 2 (A Guide to Canadian and Provincial Requirements) will be of particular interest to Canadians involved in the preparation or review of a records retention program. It contains excerpts of the record retention requirements of laws and regulations, fully identified as to source and quoted with relevant text so that the excerpts are not out of context. Sections are devoted to the requirements of the federal and provincial statutes and regulations, as well as to those which pertain solely to particular types of industry or business activity.

This study does not pretend to tell how or how long business records should be kept, but rather gives the reader some background information in order to form an opinion during the preparation or review of a records retention schedule.

The National Records Management Council in the United States has devised five standards to be considered in planning for records retention and transfer:

1. Value—operating and historical.
2. Activity—rate of reference.
3. Law—federal and other statutes.
4. Volume—cost versus value.
5. Experience — comparable company practices.

While these volumes do not purport to give legal advice or to provide legal interpretations, they do represent a handy guide to the third factor listed.

John A. Orr, F.C.A.
Toronto, Ontario

Editor's Note: The editor of this department wishes to acknowledge the assistance of Professor E. B. Smyth in the preparation of this month's column. Professor Smyth, who is currently lecturing at the University of Michigan, is Professor of Accountancy, University of New South Wales, Sydney, Australia.

Edited by CAMPBELL W. LEACH, C.A.

Tax Review

Report on Tax Conference

The Canadian Tax Foundation held its 13th annual convention on November 19, 20 and 21 at Quebec City. At the opening session, Dr. A. Kenneth Eaton, fiscal consultant, may well have sounded the death knell for a tax on capital gains. While he conceded that there are several good arguments for such a tax, he felt that on balance it would be neither equitable nor practical. The most important single reason, in the opinion of Dr. Eaton, why such a tax should not be levied was that until the value of the dollar can be and is stabilized, such a tax would be extremely unfair. Otherwise it would result in a capital levy rather than a tax upon capital gains. Dr. Eaton also went on to say that it would be a very complex tax and therefore not a good way to raise revenue; other methods are much better. He also pointed out that such a tax would require too much paper work on the part of taxpayers, a particularly onerous thing for individuals, and that it was essentially an estate tax in a hurry. He also observed that our society is not a society of "have's" and "have-nots" and that a capital gains tax is not therefore urgently required for social reasons.

As for the other side of the argument, Dr. Eaton felt that such a tax would hardly cause a ripple in the business world if introduced, for the majority of capital gains are earned in corporate enterprises rather than by individuals. Those objecting to the tax, however, are usually individuals who are concerned lest some of their gains be taxed. He did not think that it would have any effect upon the volume of funds flowing into capital or stock markets nor did he feel that such a tax would prevent people from selling property or entering business or developing natural resources. In his opinion, business would be carried on in a normal manner whether or not there is a capital gains tax. Moreover, the largest source of capital is in the form of true investment largely by institutions and funds and thus the only people to suffer from such a tax would be those who are in and out of the stock market repeatedly. These people, he submitted, were not important to the economy. Dr. Eaton also pointed out that the vast majority of those in favour of such a tax say that it would remove the uncertainty in the law as to whether gains are income or capital which deters business transactions. He pointed out, however, that such a tax would not change this, for transactions of this type could still be held to be income unless a very explicit definition of income or capital gain was introduced. This he felt was a most difficult task.

Dr. Lawrence H. Seltzer of the Department of Economics, Wayne State University, outlined the American approach to the capital gains tax

through a paper read by Harvey Perry, director of the Foundation. While he deliberately avoided taking sides, he did point out some of the difficulties encountered in the United States. These difficulties were:

1. It is unjust to tax, at graduated rates, gains which have taken years to accumulate.
2. It is unjust to tax gains resulting from the devaluation of the dollar.
3. The tax tends to reduce accumulations of capital and mobility of investment is often impeded.
4. Such a tax accentuates fluctuations in the stock market.
5. The absence of such a tax does attract foreign investment.
6. Such a tax requires a vast code of laws, results in considerable litigation and produces very little revenue.

In a panel discussion concerning Ontario and Quebec succession duties, it was suggested that although the provinces were limited to direct taxation they could and should consider revising their present Succession Duty Acts and impose an estate tax, presumably in line with that of the federal government. Such a tax, it was felt, could be brought within the terms of the British North America Act by imposing the liability upon the beneficiary even though it was calculated upon the basis of the entire estate.

In another panel concerning corporate re-organizations and distributions it was suggested that the Canadian law was too restrictive. The United States position was outlined and was found to be more reasonable in principle although more complicated in the practical details. A partial reason is the tax upon capital gains. As for Canada, it was suggested that the designated surplus provisions of the Canadian Act were out-moded and unnecessarily restrictive. As designated surpluses could be freed upon the payment of a 15% tax through a non-resident corporation or charitable institution, it was suggested that this rate of tax be exacted in all cases, thus eliminating complicated transactions. Another method for alleviating the problem would be to have a time period for designation so that if such a surplus remained after 5 years, it would automatically be freed or, as an alternative, the date May 10, 1950 should be replaced by January 1, 1960, so that designated surpluses occurring in this period would automatically be freed.

At the discussion on provincial corporate profit taxes where the systems used by Quebec and Ontario were outlined, the well-known inequities were discussed but no conclusions were reached. Philip T. Clark, F.C.A., Comptroller of Revenue, Province of Ontario, indicated that where taxpayers had been assessed interest and penalties in connection with their 1957 underpaid instalments, an adjustment would be made if the underpayment of the instalments was the result of the retroactive legislation introduced by Ontario towards the end of that year.

There were also panel discussions on personal corporations, gift tax, tax cases in the news, advance ruling — U.S. experience, family relationships under income and death taxes, municipal business taxes, tax traps and penalties, foreign business corporations, valuation of closely held businesses and pension plan approvals, all of which were interesting.

THE LAW

Canada-Netherlands Tax Treaty

A supplementary convention between Canada and the Netherlands has been signed, but is not yet in force. It amends the provisions of the original convention which permitted the payment of dividends free of withholding tax to companies owning at least 50% of the voting stock of the payor. The amendment now provides that a tax of 2½% is to be withheld from dividends paid to a company in one of the States by a company resident in the other State if, during the whole of the taxation year, the parent company owned all of the voting stock (except director's qualifying shares), either alone or in association with not more than three other companies each of whom owned at least 10% of the voting stock. Where the gross income of such a payor company is entirely (95% for the taxation years 1957, 1958 and 1959) derived from dividends or interest received from non-resident companies, dividends paid by it are not subject to any withholding tax provided that this condition has obtained for the three years preceding the year in which the dividend is paid. Where the foregoing conditions are not met, tax at the rate of 15% must be withheld at source.

Timber Limit Expenses

Schedule C of the federal Income Tax Regulations has been amended to include the cost of timber limit survey expenses in the basis upon which capital cost allowances in respect of timber limits or cutting rights is to be computed. Effective in 1958 and subsequent taxation years, an amount expended by a taxpayer after the commencement of his 1949 taxation year that is included in the capital cost to him for the timber limit or right, for surveys, cruises or preparation of prints, maps and plans, for the purpose of obtaining a licence or right to cut timber, is deductible at the rate of one-tenth per annum. The amendment suggests that for such expenses to be depreciable, they must have been capitalized by the taxpayer as part of the timber limits. This, however, is not the case, as the phrase "that is included in the capital cost to him of the timber limit or right" means, it is submitted, those expenditures which are disallowed by the Minister of National Revenue pursuant to the *KVP* case. This judgment, it will be remembered, ruled that expenditures of this nature incurred pursuant to an obligation to furnish information to the granter of the timber right were expenditures of a capital nature incurred to obtain the limit or right. Thus, any such expenses which were incurred after 1948 may be amortized in the 1958 and subsequent taxation years at one-tenth per annum.

Ontario Corporations Tax Act

The Corporations Tax Act, 1957 has been amended to reflect certain changes made during 1959 to the federal Income Tax Act as that Act affects corporations. The amendments to the Federal Act have been discussed previously and reference should be made to prior issues for further details. The most important of the Ontario amendments are:

Valuation of opening inventories (applicable to the 1958 and subsequent fiscal years).

Mutualization of provincial life insurance companies (applicable in respect of amounts applied after 1958).

Mutualization of provincial insurance companies (applicable in respect of amounts applied after 1958).

Share transfer and other expenses (applicable to the 1957 and subsequent fiscal years).

Foreign business corporations (qualification restricted under section 43(5)). The restrictions are similar to those under section 71(5) of the federal Act.

Other changes affecting corporations are technical and closely follow the 1959 amendments of the federal Income Tax Act.

Quebec Taxes Recaptured Depreciation

Individuals paying Quebec income taxes are subject to a new regulation, effective as of the taxation year 1955, governing the recapture of depreciation under section 14 of the provincial Income Tax Act. Where property, depreciated for the purpose of Quebec personal income tax, is sold or ceded at a price or for a consideration exceeding the undepreciated capital cost, such excess is to be included in computing the income of the year during which the sale occurred "according to the regulations and provisions of section 20, as amended, of the federal Income Tax Act". This means that capital cost allowances claimed since the end of 1948 will be subject to recapture by the province provided that an allowance was claimed for provincial purposes in 1954 or subsequent years. The excess proceeds or capital gain need not be credited to the class of assets and are not subject to tax.

The same regulation provides that the tax applicable to the additional revenue prescribed by section 14 will be payable, at the option of the taxpayer, in the same manner as set out in section 43, as amended, of the federal Act, which permits the additional revenue to be apportioned over a maximum of five years and taxed at the rates in force in those years.

Quebec Allows RRSP Contributions

The Province of Quebec will now allow taxpayers to deduct, for provincial income tax purposes, contributions to registered retirement savings plans in 1959 and subsequent years. While the provisions of Order-in-Council No. 1139 are presumably intended to parallel those of section 79B of the federal Income Tax Act, there are certain differences in phraseology which may or may not cause trouble.

The amount of the deduction is the lesser of $1,500 or 10% of earned income in the case of officers and employees covered by an approved pension plan minus the amount of their current service contributions to such a plan. In other cases, the deduction is limited to the lesser of $2,500 or 10% of the earned income. Employees of life insurance corporations are restricted to the former deduction. The definition of earned income is the same as that in the federal Act except that alimony and maintenance payments, excess premiums for group life insurance policies and losses from the rental of real property are excluded. As under the federal Act, a deduction may be claimed for contributions made within 60 days after the end of the taxation year if the individual became a member of the plan prior to the expiry of the 60-day period.

As the regulation is applicable to the 1959 and subsequent taxation

years, contributions made in prior years are not permitted as a deduction. However, when benefits are payable under the plan, the portion that is attributable to the contributions made before the regulation was in force will be non-taxable. Taxpayers might be well advised, however, to keep adequate records of such non-allowable contributions, for the regulation provides that the Minister or Comptroller of Revenue shall have the right to determine that part of the benefit which is to be considered non-taxable. This may cause considerable difficulty in later years where taxpayers have failed to keep proper records.

Where an amount is received by a taxpayer by way of refund of premiums on the death of the taxpayer, the amount so received will be subject to a tax of 2½% only which is to be withheld at source. Where a plan is revised, amended, or a new one substituted, all amounts received by the taxpayer must be included in his income. Tax at the rate of 4% must be withheld from such payments and such tax will not be refunded if the taxpayer's rate of tax is less.

RECENT TAX CASES

Community of Property

At the time of writing, it was reported that the Exchequer Court of Canada had allowed the Minister's appeal from the decision of the Tax Appeal Board in *No. 445* v. *M.N.R.* This case, it will be remembered, concerned the right of a spouse living in community of property to exclude, from his income, one-half of the income of the community since this other half belonged to the other spouse. The Exchequer Court has now denied this right to the taxpayer, but it is understood that the case will be appealed to the Supreme Court of Canada. This means of course that those individuals anxious to obtain clarification of the matter will have to wait until a decision is rendered by the Supreme Court from whence there is no appeal.

Transfer of Property to Minors

In 1945 the appellant arranged for a trust company to purchase a building as trustees for his minor children. The funds necessary for the purchase were advanced by the appellant and secured by a mortgage. The Minister ruled, upon assessment, that the rental income was taxable in the hands of the appellant by virtue of section 22(1) which provides that income derived from property transferred to minors shall be taxed in the hands of the transferor. The taxpayer appealed to the Exchequer Court of Canada which allowed his appeal. The Court ruled that the lending of money cannot be considered the transference of property as to rule otherwise would require an unusual and unnatural use of the words "has transferred property". (*J. B. Dunkelman* v. *M.N.R.*)

Indirect Payments

The taxpayer operated a store through a private company and, upon his retirement, arranged for the sale of the store and the business to a company formed by his son and son-in-law at a price of some $74,000. The new business failed to prosper, however, and the old company, at the direction of the taxpayer, forgave $30,-000 of the debt, to be recorded at the rate of $5,000 per annum. After $15,-000 of the debt had actually been for-

given, the taxpayer died. The principal asset of his estate was the shares of the private company and the value of these was decreased by the balance of $15,000 to be forgiven, for succession duty purposes. Apparently no problem arose up to this point. However, in the three subsequent years when the balance of the debt was forgiven, the Minister sought to tax the estate of the deceased upon the $5,000 on the grounds that the amounts in question constituted "a benefit that the taxpayer desired to have conferred on some other person" within the meaning of section 16(1) of the Income Tax Act. The Appeal Board upheld the Minister but left several unanswered questions, namely:

Why was not the first $15,000 subject to tax? (Perhaps the years were beyond assessment).

If the forgiveness of $30,000 was accepted for succession duty purposes, why was it not reflected in the accounts at that time?

If the forgiveness was a benefit, then should it not have been subject to succession duties as a gift?

While section 16(1) confers upon the Minister the right to levy tax where a benefit has been conferred, tax may only be levied if there has been a payment or transfer of money, rights or things which, if received by the taxpayer himself, would have been taxable. It could perhaps be said that the company's assets were reduced by the amount of the forgiveness but does it necessarily follow that this reduction would have been taxable if received by the taxpayer? Moreover, can it be said that there was a payment or transfer? Furthermore, how does the conferring of a gift, if such it was, create taxable income? (*Estate of Charles Alfred Pitt* v. *M.N.R.*)

BY R. D. THOMAS, C.A.

Students Department

Staff Recruitment and Training – A Student's Viewpoint

Norman P. LeBlanc, C.A.

(Mr. LeBlanc was winner of the Governor-General's gold medal in the 1957 examinations of the Canadian Institute. The following article is a summary of a paper he presented at the Institute of Chartered Accountants of Quebec conference in Quebec City, June 1958.)

While there is little doubt that the subject of a chartered accountant's training receives its due share of magazine pages and group discussions, it is not often that the opportunity is given for the student to participate in these discussions and to air his views. The student status is one from which I am not far removed, and I hope that the following thoughts will be looked upon as those of a student.

General Needs

Basically, the students we want to attract into the profession are looking for a vocation with the following attributes:

1. Skilled work
2. Benefit to the community
3. Interesting
4. Good future
5. Progressive
6. Reasonable remuneration.

For a number of years the C.A. profession has had all of these to offer.

A few years ago, the basic attraction of "industry" was a higher salary while that of chartered accountancy was its training. Now, most business enterprises advocate additional education for their staff and in many instances conduct their own training programs. Although salaries in the profession have increased considerably in the past few years to meet the competition of industry, our staff training programs should have improved more than the proportionate increase in salaries, and in many instances they have not.

Today the individual, in choosing a vocation, and more particularly in choosing a firm within that vocation, will look to the one that will give him the best possible training.

Practical Training

Once the individual is articled to a firm, there are certain things that he requires in the early part of his career. Too often the young student is discouraged in his first years by tedious and boring work and a feeling that his employer is not interested in his progress. As a result he may discourage many of his friends who are just graduating from college or high school.

Much can and is being done to overcome this. Procedure manuals, indoctrination courses, designated student counsellors are important in the life of the new staff member. However, more is required. The student needs a definite plan for him to feel he is receiving adequate experience.

A broad program should be designed for each student, and a record kept of the different types of jobs on which he has worked. This will assure that throughout his training period he will receive diversified assignments and the broadest possible experience.

Staff discussions are also a valuable method of training. The experience is invaluable, and it is just possible that occasionally even a new student will have a concrete and useful suggestion to offer.

The student would like to have the opportunity to progress in the firm according to his capabilities. He should be given the opportunity to do more advanced work as soon as he proves himself capable and responsible.

A periodic assessment of his ability is an invaluable asset as far as the student is concerned. If this is an established practice in the firm with which he is associated, his deficiencies of personal and technical qualifications soon become a challenge to him.

Since the student acquires most of his training on the job, every firm has a responsibility to see that seniors are properly trained so as to give the persons working under them the best possible instruction.

While the firm's main function is the completion of the audit engagement, this will be done efficiently only if the students understand their function in relation to the audit as a whole. Thus, observance of the following practices will benefit both the firm and the student:

1. The audit should be discussed by the assigned members before going to the offices of the client.
2. Each assistant should work on as many phases of the audit as possible.
3. The student's work should be reviewed and discussed. Problems which have arisen on the audit, and their ultimate disposition, should be reviewed with the staff at a later date.
4. The student should be given assignments which will tax his abilities and entail a level of responsibility somewhat beyond that previously required of him.
5. The student should be given the experience of drafting reports and correspondence and attending discussions between the client and partners.

Theoretical Training

Chartered accountants have a responsibility, not only in the field of practical training but also in the theoretical education of their staff members. To this end, firms often allow the student time off to write examinations and subsidize the cost of courses. These are commendable practices since they are a tangible form of encouragement for the student. However, the chartered accountant cannot completely fulfil his obligation to his students by making available a few extra hours or dollars. Additional study courses should be provided to encourage those students who are below average. Smaller firms can join together and offer combined courses, or they should encourage their members to participate in the extra courses provided by the Students' Society. Each organization should have at least one person with whom the students may discuss specific theoretical problems.

Too often, students who take courses at a university criticize the practical knowledge of their lecturers. Larger firms should consider hiring

college professors for the summer months, thus keeping them in touch with current practical methods.

Responsibilities of the Institute

As well as the responsibilities of the individual firm to the student, there are responsibilities which have to be met by the Institute as a whole. The Quebec Institute does much to organize social activities and provide various services such as the library and additional study courses.

However, this is not enough. Could we not endeavour to see that more and better Canadian text books are written? In our own province there are few French text books. Would it not be possible to underwrite the cost of translating or publishing worthy texts?

The Quebec Institute could perhaps, through the Students' Society, publish a periodic newsletter containing topics of interest to students.

Students would gain much from a brochure on the rules of professional conduct, outlining the underlying principles accompanied by case examples. The case examples set forth in a recent newsletter were well received by the students, and this practice should be extended.

It is also suggested that the views of students, as expressed through their society, should be obtained before the course of study is changed.

Post-graduate Work

The student's sole objective during his course of study is to qualify for admittance to membership in the Institute. When this is accomplished, he begins to realize how fast the world is moving, how little he really knows and how much more there is to learn. The young C.A. feels he must keep pace with the vast improvements in accounting methods and the ever-changing economy of the business world.

The profession should be aware of the great need for furthering the education of newly-qualified accountants (and older ones too!) and should be prepared to accept that responsibility.

The Institute or individual firms could conduct or arrange for courses on matters such as advanced taxation, estate planning, machine accounting and specialized accounting. Considerable thought and money is now being devoted to this problem in the United States.

Remuneration

I have not yet mentioned remuneration. I think that students and most young C.A.'s today are willing to forsake an immediate increase in salary for additional education and experience. However, there is a happy medium and if the profession wants to attract the best students and keep the best men in public accounting, there is a price which must be paid. In this connection, an editorial in *The Journal of Accountancy* stated, "The days when professions could expect apprentices to spend long years of drudgery at low wages in the expectation of middle-aged success were doomed forever by the rapid growth of technology and the need for professional skills."

Social Activities

If an organization is to be successful, the individuals therein must feel that they are part of a team. Social activities such as dinners, golf days, etc., play an important role in establishing this feeling. Firms should support the social activities sponsored

by the Institute or by the various student associations and should allow sufficient time for their staff to participate.

Conclusion

More than ever before, we must attract the best students into the profession. We must increase our salaries or training programs, not merely to keep up with the Joneses, but to ensure the continued development of our profession. The chairman of General Electric Company, Ralph J. Cordiner, was thinking of this in relation to industry when he said, "Not customers, not products, but managers and executives may be the limit of General Electric's growth." Mr. Cordiner's statement was paraphrased recently in *The Journal of Accountancy*, "Not clients, not firm goodwill, not machines, not money, but men who have not been developed professionally may be the limit of the growth of accounting as a profession."

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AUDIT CASE

The following case illustrates the importance of two points that can often be overlooked in auditing:

(i) the need for considering the material effects of many immaterial items, and

(ii) the need for persistence, patience and tact in drawing weaknesses in internal control to a client's attention.

The client in question operated in two locations at some distance from one another. As a service to employees in the somewhat isolated branch location the client operated a refreshment stand and a canteen on a cart that was pushed through the plant twice a day. It also had "miscellaneous income" as a result of selling scrap.

The following weaknesses in the client's internal control had existed for some time:

1. The accountant would not take all his holidays at one time.
2. The accountant received cash when the regular cashier was absent for lunch.
3. Miscellaneous income was always receipted by the accountant because "The cashier did not know the account to be credited".
4. Refreshment and canteen receipts were recorded on a cash basis with no effective cash register control because amounts were small.

For several years the managing director was advised by his auditors of these weaknesses by letter. Discussions revealed the following:

The managing director had the utmost confidence in the accountant who had been with them for 17 years. The fact that he spread his holidays over a period of time was to their advantage because there was never any delay in monthly statements or reports as there would be if he had his holidays all at one time. There was an excellent system of prenumbered receipts, it did not make any difference who accepted the cash while the cashier was absent. Everyone connected with the business knew that a proper receipt was a requirement. The miscellaneous income was not significant and had been about the same amount for years.

Persistence in disclosing these weaknesses in internal control led the managing director to instruct the local manager to find out "once and for all" if there was something wrong. The

local manager was able to obtain from the canteen clerk, who consistently turned in cash during the cashier's absence, his copy of the original receipts for a number of years. On checking these originals against the duplicates, he found the duplicates were from $2.00 to $5.00 less every second day. The record of cash turned in by the canteen clerk had been altered accordingly. Gross profit percentages, which had been set up as an overall check on the canteen clerk, were not effective because the accountant was able to make sure the fluctuation each month was small. The accountant confessed that he placed a piece of scrap paper under the carbon in the receipt book and completed the duplicate receipt later. In this manner he was able to reduce the income from the canteen and the miscellaneous income.

(Audit cases such as the one above are contributed by practising accountants with a view to providing material of interest and assistance to students. The facts of the cases have been edited to disguise the identities of the client company and the auditor.)

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ACCOUNTING AND AUDITING PROBLEM

In July 1957, an investment company sold all of its investment in a subsidiary company to one of its officers. The company had never before entered into a transaction of this kind. The investment sold represented a large block of the outstanding shares of the subsidiary, but there were many shares held by others. The price of the shares sold was substantially in excess of cost to the investment company, but both the buyer and vendor agreed that the price was "fair" as at the date of sale. The substantial profit resulting from the sale was included, and not separately identified, as part of the investment company's customary profit and loss account "Profit on disposal of securities".

The sale price was set up as a receivable from the officer and was secured by the shares sold. The sales agreement provided that the receivable amount was to be paid before December 31, 1958. The investment company's year end was December 31. No payment was made by the officer as of December 31, 1957.

Problems:

1. Should the amount and nature of this transaction, and/or its resulting profit be:

(a) shown separately in the financial statements as at December 31, 1957?

(b) disclosed in a note to the financial statements as at December 31, 1957?

2. If no disclosure was made in the financial statements, should reference to the transaction and/or its resulting profit be made in the auditor's report as of December 31, 1957?

Would your answer be different if the client insisted that there be no such reference in the statements or in the auditor's report?

(We invite readers' opinions as to how this transaction should have been handled and presented. The facts have been edited to disguise the identity of the company and the auditor concerned. A further discussion of this problem will be published in the March issue of the Students Department. We hope that you can wait that long.)

Treatment of November's Accounting and Auditing Problem

There are two points to consider in this problem:

1. What value should be recorded for the shares received?
2. What value should be removed from the land account for the properties exchanged?

In the actual case, the original cost of the properties exchanged was known so that only point 1 was considered. The company in question considered that the "bid" price was a reasonable measure of the market value of the shares received and recorded the shares at this value. The resulting profit was included in "Miscellaneous income" but the transaction and the amount of the profit were described in a note to the financial statements.

One member of the panel expressed the view that there should be no profit on the transaction. His reasons for this view are:

(a) The exchange should be regarded as a partial disposal of an entire block. It would be conservative therefore to consider that only when the entire block of property had been disposed of could any profit or loss be measured.

(b) The difference between the amount credited to the Land account and the "bid" price could be regarded as arising from the difference between the actual market value of a share when considered in small lots and when considered as large blocks.

In editing this problem the additional difficulty was introduced of having to determine a valuation for the mining properties. Since this additional difficulty is hypothetical, no "actual" treatment can be cited. However, I can offer my opinion that the amount to be ascribed as the cost of the mining properties for purposes of recording this transaction, would be the pro-rata value determined by dividing the land area of the properties exchanged into the total land area of the properties acquired in 1948; in this case, approximately 10% of $1,000,000 or $100,000. The "fair value" agreed to by the engineers undoubtedly has some element in it of the market value of the properties on or about the time of the exchange. This market value element should, of course, not be considered when crediting the land account for the properties exchanged.

A footnote disclosing the nature of, and the profit from, the transaction should form part of the financial statements of the year in which the transaction took place.

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CORRESPONDENCE

Vancouver, B.C.

Sir: We have been studying the solution to problem 4 in *The Canadian Chartered Accountant,* April 1958.

We noted that no attempt was made to determine the market value of the shares of H Co. used to acquire the shares of L Co. We felt that the market value of the no par value common shares was indicated by an issue of 6,500 such shares as a $40,000 payment on a building, presumably purchased in an arms length transaction. We feel that this same market value should have been reflected in the shares issued on the acquisition of L. Co. resulting in a large excess of book value over cost.

Would you please send us your comments on the above.

R. G. COOPER AND C. H. BRISTOL

(*Ed. Note*: For those who may not have the *CCA*, April 1958, the question referred to is question 3 from the October 1957 Accounting I Final examination.)

Editor's Reply

You raise a point that is difficult to deal with briefly since it involves the whole problem of determining the price at which to issue no par value shares. One of the advantages claimed for no par value shares is that they need not be issued at some predetermined price. In this problem, no par value shares were issued:

– for present capital stock, 9,500 shares for $140,000 or $15.789 per share

– for shares in L Co. Ltd., 9,000 shares for $156,000 or $17.333 per share

– in partial payment of a liability, 6,500 shares for $40,000 or $6.154 per share.

We can only presume that in each of these cases the directors, acting in the best interests of their company, had sound reasons for issuing these shares at different amounts. Why do you feel that the "market value" is most closely represented by the shares issued in payment of the liability for a building? No par value shares were to be issued for 3 different purposes at 3 different values. The values in each case were presumably those values that would satisfy the parties to each transaction; in none of these cases could it be said that the values were "market values" in the sense that any of these prices would have been obtained had the shares been offered to the public for cash; in all of these cases, the values given were the established "market value" for the shares since these values were presumably acceptable to the contracting parties.

Except in the case where the shares are to be sold on the market (and in this case the number of shares offered might effect their market "value"), it is at least debatable whether market value is relevant to setting the amount at which no par value shares are recorded in the accounts of the issuing company. — ED.

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NOTES AND COMMENTS

The above letter and reply illustrate the fact that there are not necessarily "right" answers to many Institute examination questions but rather "good", "better", "best" answers (although there can still be "wrong" answers). This is because of the subjective type of questions now being more widely used. These questions require discussion of points of view and usually an expression of opinion, either direct or implied, by the examination candidates.

There is little doubt that questions such as these provide a better gauge to a student's qualifications than do the "pure arithmetic" or "a list of procedures" type of problem. They do more than draw on a student's ability to give back his memory work of a theory or a procedure (these questions certainly require that ability); they also require him to blend this knowledge with his experience, judgment and commonsense — these are important parts of becoming a professional man.

Students, and certainly those preparing to write examinations, should be reading widely to be aware of current thinking inside and outside of the profession, and should constant-

ly be thinking for themselves as they perform their duties on the job. Those students who study for examinations by memorization will usually not fare well with questions that require understanding.

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At the end of a long auditing paper a student, hard pressed for time, wrote this note to the examiner:

"It has been established judicially that an auditor is a watchdog and not a bloodhound. Although the examiners may not realize it, a student is a bulldog and not a greyhound."

J. A. R.

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January may appear to be an odd time to be preoccupied with examinations, but those who note and agree with the opening comment on the type of examination questions candidates will likely continue to face, will realize that personal development is a continuous process for a professional man (part of this process being the preparation for examinations). Those who recognize the continuous nature of their development will find that their review before the examinations will be easier (a fitting of the pieces together rather than a concentrated attempt to learn) and they will be more likely to continue this self-educating process after they become chartered accountants.

Foot-in-Mouth Disease

Whenever I think of prize winners or those who get high places in examinations I am reminded of a true story told to me when I was attached to Price Waterhouse & Co. 40 years ago in New York. Mr. May, their then senior partner, told me that he and the next senior to him were interviewing a possible recruit to their staff in America, a qualified man from England. They asked him amongst other questions how he had done in his examinations, whether he had got a prize or a high place. He replied somewhat rashly that he had not done anything like that and that as far as he knew, people who had been successful in that way rarely did any good afterwards. This was an unfortunate thing to say, because both the partners in Messrs. Price Waterhouse & Co. to whom he was speaking had been first in the final examination of the Institute and were at that time the most successful and expert accountants in North America.

— C. U. Peat, president of the Institute of Chartered Accountants in England and Wales. *The Accountant,* October 17, 1959.

NEWS OF OUR MEMBERS

Alberta

Ross, Touche & Co., Chartered Accountants, announce the removal of their Edmonton office to 501 Northern Hardware Bldg., 10201 - 104 St., Edmonton.

O. J. Geib, C.A. announces the opening of an office for the practice of his profession at 221 Blow Bldg., 513 - 8 Ave. W., Calgary.

T. T. Hnatiuk, B.Com., C.A. announces the admission to partnership of E. H. Charko, C.A. Henceforth, the practice of their profession will be carried on under the firm name of Hnatiuk, Charko & Co., Chartered Accountants, with offices at 207 Barry Bldg., Edmonton.

British Columbia

D. M. Jacquest, C.A. has been appointed vice-president, finance, Sidney Roofing & Paper Co. Ltd.

Clarkson, Gordon & Co. and Carter, Reid & Walden, Chartered Accountants, announce that their practices have been merged and are being carried on in Vancouver under the name of Clarkson, Gordon & Co. with G. B. Donaldson, W. A. Farlinger, D. B. Fields, A. M. Reid, W. J. Smith, F. E. Walden as partners in the firm, resident in Vancouver, and G. W. J. Carter as a consultant of the firm.

Rickard, Crawford & Co., Chartered Accountants, announce the admission to partnership of R. J. Forsyth, C.A. as resident partner, 4787 Kingsway, South Burnaby.

Frederick Field & Co., Chartered Accountants, Vancouver and New Westminster, announce the admission to partnership of R. I. Field, C.A.

Winspear, Hamilton, Anderson & Co., Chartered Accountants, announce the admission to partnership of J. R. Shutiak, C.A.

I. S. van Nieuwkerk, C.A. announces that he has opened an office for the practice of his profession at 2171 Shaughnessy St., Port Coquitlam and in the McDonald Bldg., Haney.

L. D. Barnes, C.A. announces the admission to partnership of L. H. McNicol, C.A. Henceforth the practice will be carried on under the firm name of Barnes, McNicol & Co., Chartered Accountants, at 1201 Melville St., Vancouver 5.

Manitoba

Burch, Findlay, McFarlane & Co., Chartered Accountants, announce the removal of their offices to 101 North American Life Bldg., 219 Kennedy St., Winnipeg 1.

N. S. Mickoski, C.A. has been appointed assistant general manager of the Winnipeg Mortgage Exchange Ltd.

Ontario

Peat, Marwick, Mitchell & Co., Chartered Accountants, Toronto, announce the admission to partnership of F. H. Buck, F.C.A.

William Buckley & Co., Chartered Accountants, announce the appointment of G. H. Clarke, B.Com., C.A. as resident partner of their new office at Wilson Ave. and Jane St., Downsview.

Britnell & Moore, Chartered Accountants, Toronto, announce the removal of their office to 7th Flr., 76 Church St., Toronto.

C. R. Jolly, C.A. has been appointed controller of Lakeland Natural Gas Ltd., Kingston.

John Spence, C.A. announces the admission to partnership of R. L. McPherson, C.A. The practice of their professsion will be carried on under the firm name of Spence & McPherson, Chartered Accountants, 211 Owen Blvd., Willowdale.

Sydney Morris, C.A. and Fisher, Sanders, Stern & Nisker, Chartered Accountants, announce the amalgamation of their Windsor practices which will be carried on under the firm name of Fisher, Sanders, Stern & Nisker, with offices at Ste. 302, Canada Trust Bldg., Windsor.

G. F. Plummer, F.C.A. has been appointed vice-president and general manager of Dunlop Canada Ltd., Toronto.

R. J. Hamilton, C.A. has been appointed the city treasurer of Westport.

Quebec

G. H. Milne, C.A. has been appointed to the Board of Directors of the Douglas Memorial Hospital.

M. A. Miller, B.Com., C.A. announces that he has opened an office for the practice of his profession at Ste. 1060, 1435 St. Alexander St., Montreal 2.

Strean, Levy & Chazan, Chartered Accountants, announce the removal of their offices to Stes. 216-217, 5726 Sherbrooke St. W., Montreal.

H. S. Pesner, B.Com., C.A. announces the removal of his office to Ste. 704, 4 Notre Dame St. E., Montreal.

S. Schwartz & Co., Chartered Accountants, announce that they are continuing the practice of their profession under the firm name of Schwartz, Ronis & Co., Chartered Accountants, Montreal.

Edwards, Browne & Co., Chartered Accountants, announce the removal of their office to Room 208, 215 St. James St. W., Montreal 1.

Saskatchewan

C. E. Chase, C.A. has been appointed vice-president and treasurer of Roneo Co. of Canada Ltd.

OBITUARIES

We regret to announce the death of the following members:

ANDREW ROW MACKENZIE — of a heart attack at his home in Toronto on November 24, 1959 at the age of 60. He became a C.A. in 1928 while with Clarkson, Gordon and Dilworth, and he worked for several banks and for the Union Gas Company in Chatham before joining Purity Flour Mills Limited in 1935. At the time of his death he was president of the company and vice-president of Maple Leaf Milling Co. Ltd. Active in community work he was on the Board of Governors of the Y.M.C.A., a director of the Health League of Canada and of International House. Mr. MacKenzie was a trustee of the Kingsway-Lambton United Church.

JOHN DAVIDSON REID — of West Vancouver, who died on October 7, 1959 in his 75th year. Mr. Reid became a member of the Manitoba Institute in July, 1911 and for many years practised his profession in Winnipeg. On moving to Vancouver in 1954 he affiliated with the B.C. Institute, and maintained a practice in Vancouver up to the time of his death.

J. A. LIONEL EMOND — décédé le 24 novembre 1959, à Montréal, Qué., à l'âge de 52 ans. Monsieur Emond a été admis membre de l'Institut de Québec en 1947. De la date de son admission jusqu-à sa mort, il a pratiqué sa profession seul.

INSTITUTE NOTES

ATLANTIC CONFERENCE

The Atlantic Provinces Regional Conference, held at Moncton, N.B. on November 9 and 10, 1959, was attended by C.I.C.A. president J. G. Duncan and approximately 40 members of the four provincial Institutes. Nearly all the firms practising in the Atlantic provinces were represented.

After an opening reception and luncheon, a delegate from each of the four provinces who had attended the C.I.C.A. conference in Vancouver last September presented his individual impressions of the meeting. This was followed by a discussion and a showing of the C.I.C.A. film "The C.A. in Canada".

On Monday evening, November 9, a reception was held when members were joined by their wives, students from the Moncton area and a number of special guests representing banking, educational and legal professions. About 100 attended this function. Guest speaker was J. G. Duncan, F.C.A. who spoke on "The C.A. of the Future". Mr. Duncan said that if the chartered accountant is to attain recognized professional status such as is enjoyed by those in medicine and law, then educational requirements should be on a comparable basis. He pointed out that, as a part of this program, it has been recommended that a university degree will be a minimum educational requirement preliminary to courses of instruction leading to a degree in accountancy.

The opening session on Tuesday, November 10 dealt with "Provincial Matters and Staff Recruitment, Training and Education". The panel was chaired by J. N. Burnham, and those taking part consisted of E. A. Mowatt, Saint John, N.B., J. E. Millie, Halifax, N.S. and F. D. Woolgar, St. John's, Nfld.

Later in the morning a report on Canadian Institute affairs was presented by E. Michael Howarth, C.I.C.A. executive secretary.

At the luncheon on Tuesday, G. W. Hudson of Moncton, second vice-president of the Canadian Institute, was guest speaker. In the course of his remarks he suggested that some kind of joint secretariat might be established by the Institutes of the Atlantic provinces.

The first session in the afternoon was a review of accounting and auditing bulletins and their application to prevailing standards in the Atlantic provinces. Those taking part included G. A. Oulton (Chairman) and panel members H. E. Crosby, Halifax, Mrs. E. Morrison, Moncton and J. K. Logan, Saint John, N.B.

Bulletins covering the auditor's report, the auditor's responsibility for the validity of the inventory figure and confirmation of receivables were discussed, and the views expressed provoked much thought and comment.

The final session of the conference was an address "Financing Small Business — and the Bank" by A. E. Bell, Halifax, N.S., supervisor of the Industrial Development Bank.

The general consensus by those attending the conference was that it had been instructive, informative and worthwhile.

ONTARIO INSTITUTE

Staff changes: The Council of the Institute of Chartered Accountants of Ontario announce with regret the resignation of Francis H. Buck, F.C.A. as registrar of the Institute after 10 years of service. Mr. Thomas Merrilees, B.Com., A.R.A. (N.Z.) has been appointed acting registrar effective January 1, 1960. Mr. Buck leaves the Institute to become partner in a firm of practising chartered accountants.

Mr. Peter Yardley, C.A., has joined the Institute staff as assistant registrar.

On December 15 the Council of the Institute gave a luncheon at the University Club in Toronto, at which Mr. Buck was presented with a painting by Edward Seago, a British artist who accompanied the Duke of Edinburgh on his world tour, in recognition of Mr. Buck's many years of valuable service to the Institute.

Fourth Year Students: The Manual of Instructions for Municipal Corporations was not available at the time fourth year students received their text books. The Bureau of Statistics has now reported that they do not know when the new edition of this book will be published.

QUEBEC INSTITUTE

Forums: The fall series of forums of the Quebec Institute came to a close with a

meeting in English on November 24 and one in French on November 26, both held in the Institute assembly hall.

The English forum was on the subject of the federal sales tax and the panel was made up of L. J. Vetter, C.P.A., assistant to the director of excise tax administration, Department of National Revenue, Ottawa, and Charles McLaughlin, C.A., tax manager, Canadian Industries Limited, Montreal. Peter S. Leggat, C.A., acted as moderator.

The French panel had as its subject "Professional Problems and Economics". The speaker was Professor Francois-Albert Angers, head of the Institute of Applied Economics, Ecole des Hautes Etudes Commerciales de Montreal. Jérome Carrière, C.A. followed Professor Angers with a commentary on his observations. The chairman of the meeting was J. J. St. Pierre, C.A.

***Receptions for Teachers*:** For some years the recruitment program of the Institute has included informal receptions for principals, vice-principals and guidance counsellors of high schools and classical colleges in the Greater Montreal area. This year, representatives of French schools and colleges were entertained on November 12. The reception for English personnel took place on November 19. The new C.I.C.A. film was shown to the English group.

VANCOUVER C.A. WIVES CLUB

Eighty members of the C.A. Wives Club attended the Christmas Coffee Party held at the Capilano Golf & Country Club, West Vancouver, on December 2, 1959.

OKANAGAN-MAINLINE C.A. CLUB

Reg. Rutherford of Kelowna was elected president of the newly formed Okanagan-Mainline C.A. Club at the second meeting of the club held on November 14, 1959 at the Royal Anne Hotel, Kelowna. Other officers elected for the 1959-60 year included A. G. DesBrisay, Penticton, vice-president; F. C. Williams, Kelowna, secretary; and T. M. Rae, Penticton, treasurer.

The next meeting of the club will be held at Penticton in January, 1960.

C.A. CLUB OF OTTAWA

On Thursday, November 12, the Chartered Accountants' Club of Ottawa held its first luncheon meeting of the 1959-60 season in the Quebec Suite of the Chateau Laurier. Guest speaker Dr. A. Davidson Dunton, president of Carleton University, addressed a well-attended meeting presided over by the club's president-elect, Mr. S. G. Payne. Dr. C. J. MacKenzie, Chancellor of the University, was a head-table guest.

WATERLOO-WELLINGTON C.A. ASSOCIATION

President D. J. Matthews presided over a meeting of the Waterloo-Wellington Chartered Accountants Association held at the Granite Club, Kitchener, on November 24. Prizes were presented to winners of the afternoon curling by R. H. Fickes, vice-president of the Association. C. H. Spry introduced Fletcher Whitmore, electronics co-ordinator of the Mutual Life of Canada, who gave a brief talk on the I.B.M. 650 electronic data processing installation at Mutual Life. The group then adjourned to the Mutual Life offices where they were conducted on a tour of the installation.

HAMILTON & DISTRICT C.A. ASSOCIATION

At the second dinner meeting of the 1959-60 season, held at the Royal Connaught Hotel on November 3, Dr. A. K. Eaton, Ottawa fiscal consultant and former assistant Deputy Minister of Finance, spoke on "Fiscal Policy and Monetary Policy". This was a joint meeting with the Hamilton Lawyers Club.

The association held its annual Ladies Night on November 27 at the Hamilton Golf and Country Club. Special guests were R. B. Dale-Harris, president of the Ontario Institute, and Mrs. Dale-Harris.

REGINA C.A. CLUB

J. H. Coleman, supervisor of Saskatchewan branches of the Royal Bank of Canada, addressed the October meeting the Regina Chartered Accountants Club on

what a bank expects from an audited financial statement for credit purposes. Also attending was Renny Englebert, editor of *The Canadian Chartered Accountant*.

WESTERN ONTARIO C.A. ASSOCIATION

The first meeting of the 1959-60 season was held in the Y.M.C.A. in London on November 18, under the chairmanship of the president, A. R. Martin. Professor W. G. Leonard, F.C.A., the director of professional Courses, Queen's University, and F. H. Buck, F.C.A., the registrar of the Institute, were the guest speakers. The meeting was particularly interesting to newly registered students-in-accounts because the speakers described the organization of the course of instruction and of the Institute. The new C.I.C.A. film "The C.A. in Canada" was shown.

ONTARIO STUDENTS

Annual Dance: The most successful dance in the history of the Association was held on October 31 in the Canadian Room of the Royal York Hotel. Over 500 couples filled the room and the dance floor virtually to capacity to make the night a most memorable one. Despite an admission cost of only $3.00 per couple, the function was a financial success as well and great credit is reflected on Miss Pat Dugit and the committee for the arrangements. The 1960 dance will be held in the Canadian Room also, on Saturday, December 10.

Introductory Meeting: About 175 newly registered students in the Toronto area attended an introductory meeting in the lecture hall of the C.A. Building on November 17. Guest speakers were the president of the Ontario Institute, Mr. R. B. Dale-Harris; the director of professional courses at Queen's University, Professor W. G. Leonard; and the registrar of the Institute, Mr. F. H. Buck. They were introduced by T. C. Greig, president of the Students Association, who also spoke to the meeting. After a coffee break in mid-afternoon, the film "The C.A. in Canada" was shown.

MANITOBA STUDENTS

The Chartered Accountants Students Society of Manitoba held its 31st annual fall formal on Saturday, October 24, 1959 at the Fort Garry Hotel in Winnipeg.

A record attendance of 186 couples enjoyed the evening which began with refreshments at 6:30 p.m. followed by dinner at 7:00 p.m. Dancing to the music of Harold Green's Orchestra followed from 9:00 to 12:00 p.m.

Guests of honour at this event were Mr. Peebles Kelly, vice-president of the Institute of Chartered Accountants of Manitoba, and Mrs. Kelly; Mr. E. W. Pope, liaison officer of the Manitoba Institute, and Mrs. Pope; Mr. J. W. Beech of the Students' Studies Committee of the Manitoba Institute, and Mrs. Beech; Miss Carol Robson, accountancy freshie queen; and Mr. James Foran, president of the University of Manitoba Students Union.

CLASSIFIED ADVERTISEMENTS

All replies to box numbers should be sent to The Canadian Chartered Accountant, 69 Bloor Street East, Toronto 5, Ontario.

Rates: *Positions wanted, $7.00 per column inch; Positions offered, $10.00 per column inch; Open rate, $17.00 per column inch.*

Closing date is 13th of preceding month.

EXPERIENCED C.A. wishes to join a firm with a view to partnership, succession and/or purchase in Vancouver. Reply in strictest confidence to Box 967.

CHARTERED ACCOUNTANTS require the services of a recent graduate or graduating student. Excellent opportunity with an expanding firm with an opportunity for a partnership. Reply in confidence to Box 968.

CHARTERED ACCOUNTANT, Toronto, available on per diem basis. Box 969.

LARGE MONTREAL manufacturing company with diversified divisions has opening for young chartered accountant who has decided on an industrial career. Initial assignments will be arranged to provide familiarization with the company's business and subsequent moves will afford excellent opportunities for advancement within the accounting organization of this well known and rapidly expanding company. Reply in confidence with full personal details to Box 970.

CHARTERED ACCOUNTANT, B.Com., Jewish, desires position leading to partnership or succession with practising firm in Montreal. Box 976.

CHARTERED ACCOUNTANT, 1956 graduate, B.Com. taxation experience, desires return to professional practice in firm with partnership or succession prospects. Box 974.

INTERMEDIATE STUDENT: We have an opening on our staff for an intermediate student interested in gaining diversified experience with medium-size, well-established firm in Peterborough, Ontario. Reply in confidence to Box 975.

CONTROLLER. Supervision of all hospital matters which are related to finance, including the office staff and accounting procedures. Report directly to the superintendent, keep him informed regarding, and give adequate advice about, financial problems of the hospital. Salary commensurate with responsibilities assumed, experience and qualifications.

Apply, giving full particulars, qualifications, present salary and references to: The Superintendent, The Belleville General Hospital, Belleville, Ontario.

QUALIFIED CHARTERED ACCOUNTANT, female, wanted to act as full-time secretary of accounting practice committee of national firm of chartered accountants. Recent graduate acceptable. Position available immediately. Box 971.

CHARTERED ACCOUNTANT, whose greatest desire is to serve clients directly, desires position with medium-sized firm of chartered accountants with future participation probable. Excellent qualifications. Reply Box 972.

STUDENT in second or third year required by an expanding practice. Location: Cornwall, Ontario. Experience will be varied. Reply to Box 973.

RECENT GRADUATE or fifth year student required to manage small C.A. firm in Ottawa. Partnership prospects for young man with management ability who desires a career in public accounting. Reply in confidence, stating experience, age and other personal details to Box 977.

WANTED: C.A. student-in-accounts with from one to three years experience, who would like to locate in Ottawa. Box 956.

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Barristers and Solicitors

6th Floor, Hollinsworth Building - - - - Calgary, Alta.

PITBLADO, HOSKIN & COMPANY

Barristers and Solicitors

900 Hamilton Building, 395 Main Street - Winnipeg 2, Man.

STEWART, SMITH & MACKEEN

Barristers and Solicitors

Roy Building - - - - - - - - Halifax, N.S.

ROSS & ROBINSON

Barristers and Solicitors

Canadian Bank of Commerce Chambers - Hamilton, Ont.

GOWLING, MacTAVISH, OSBORNE & HENDERSON

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88 Metcalfe Street - - - - - - - Ottawa 4, Ont.

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